

MAR 24 1998

A L B E R T A

MINISTRY OF ENERGY

1996-1997 Annual Report

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The energy industry affects the lives of all Albertans, either directly by providing employment, or indirectly by helping the Province balance its budget and pay down its debt. This means that we in Alberta have the lowest taxes, the strongest economy and the highest economic growth in Canada.

Stephen C. West
Minister of Energy

Alberta
Department of
Energy



Alberta Energy
and Utilities
Board



Alberta Energy and Utilities Board

DEPARTMENT OF ENERGY

- On the strength of higher oil and natural gas prices, and increased sales of crown leases, the Government of Alberta's non-renewable resource revenues climbed 34 per cent to \$4.4 billion in 1996/97 from \$3.2 billion in 1995/96.
- The new generic royalty system for oil sands development was a factor in almost \$11 billion in announced investment in new oil sands projects in Alberta.
- The Electric Utilities Act which provides the legislative framework and guiding principles for a restructured and competitive electricity industry will help ensure that Alberta continues to have among the lowest electricity rates in North America.

ALBERTA ENERGY AND UTILITIES BOARD

- In response to a record year of industry activity, the EUB processed 19 551 applications, including 12 894 well licences, held 72 energy resource and utility hearings, conducted 11 000 inspections of oil and gas facilities, monitored Alberta's growing infrastructure of 260 000 km of EUB regulated pipeline, 73 155 operating wells, and 740 gas plants, and handled \$2.1 million in sales of energy information.
- The EUB launched a simplified application handling process for oil and gas facilities, reducing the administrative burden on industry, speeding up approval time, and ensuring industry accountability through audit, corporate compliance, and enforcement measures.
- After 3 years of consultation and public review, the EUB released comprehensive requirements that ensure the safe and environmentally sound management of oilfield waste.

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Minister's Accountability Statement



he Ministry's Annual Report for the year ended March 31, 1997 was prepared under my direction in accordance with the Government Accountability Act and the government's accounting policies. All of the government's policy decisions as at August 28, 1998 with material economic or fiscal implications of which I am aware have been considered in the preparation of the Ministry's Annual Report.

Stephen C. West
Minister of Energy

MISSION:

To ensure Alberta's energy and mineral resources are developed and used in an effective, orderly and environmentally responsible manner in the interests of Albertans

Message from the Minister

The energy industry affects the lives of all Albertans, either directly by providing employment, or indirectly by helping the Province balance its budget and pay down its debt. This means that we in Alberta have the lowest taxes, the strongest economy and the highest economic growth in Canada.

The Energy Ministry maximizes the benefits to Albertans from Alberta's energy and mineral resources, and regulates energy development in a manner that protects individual and public interests with respect to the resource and environment. This approach created an attractive climate for economic growth, reflected the Ministry's commitment to the Alberta Advantage and now helps maintain the current and long-term prosperity of the province.

ENERGY REVENUES INCREASE

On the strength of higher oil and natural gas prices, and increased sales of crown leases, the Government of Alberta's non-renewable resource revenues climbed 34 per cent to \$4.3 billion in 1996/97 from \$3.2 billion in 1995/96. This increase in revenues arises from:

- \$351 million more from petroleum and natural gas leases
- \$329 million more from crude oil royalties
- \$289 million more from natural gas royalties
- \$206 million more from synthetic crude oil royalties.

MINERAL REVENUES INFORMATION SYSTEM

In October 1992 the Premier and the Minister of Energy announced their intention to simplify the gas royalty regime. The Ministry began developing a new computerized system called the Mineral Revenues Information System (MRIS). During the 1996/97 fiscal year, MRIS began issuing invoices as required by the legislation.

MRIS has reduced the number of filings and the use of electronic filings has reduced the paper burden to both government and industry. MRIS now determines which transactions are subject to royalty, assesses the royalty to each royalty payer, prepares consolidated monthly invoices and determines year-end adjustments. The Ministry will continue to refine the royalty processes to achieve even greater simplification.

CLIMATE CHANGE

On the national scene, the Ministry has worked with the federal and other provincial governments and industry to develop national environmental policies affecting the energy and mineral sectors. Participating in the National Air Issues Coordinating Mechanism and Canada's National Action Program on Climate Change, the Ministry played an active role in influencing Canada's response to address international climate change issues.

The Ministry published and distributed Environmental Regulation of Natural Gas Development in Alberta, Canada. This helped provide information about the environmental benefits of Alberta natural gas and the sound manner in which it is regulated. The Ministry continues to be committed to a balanced approach in addressing future emission limits by encouraging economic solutions that will help resolve climate change issues.

SIMPLIFIED APPLICATION PROCESS FOR OIL AND GAS FACILITIES

In response to a number of factors, the Alberta Energy and Utilities Board (EUB) launched a simplified application process for oil and gas facilities reducing the administrative burden on the industry and, through audits of corporate compliance, ensured industry accountability. The Ministry intends to further simplify the administrative processes.

IN SUMMARY

The 1996/97 financial results reflect the effort by Ministry officials to meet the reorganizational challenges begun in 1992. Ministry expenditures in that period dropped by one-third from about \$180 million in 1992/93 to about \$120 million in 1996/97. I commend the commitment and efforts of Ministry staff to help meet the Government of Alberta's overall spending reductions.

The Energy Ministry continues to be committed to being sensitive to changing business and economic environments, while protecting the energy industry's access to markets and eliminating unnecessary regulation.

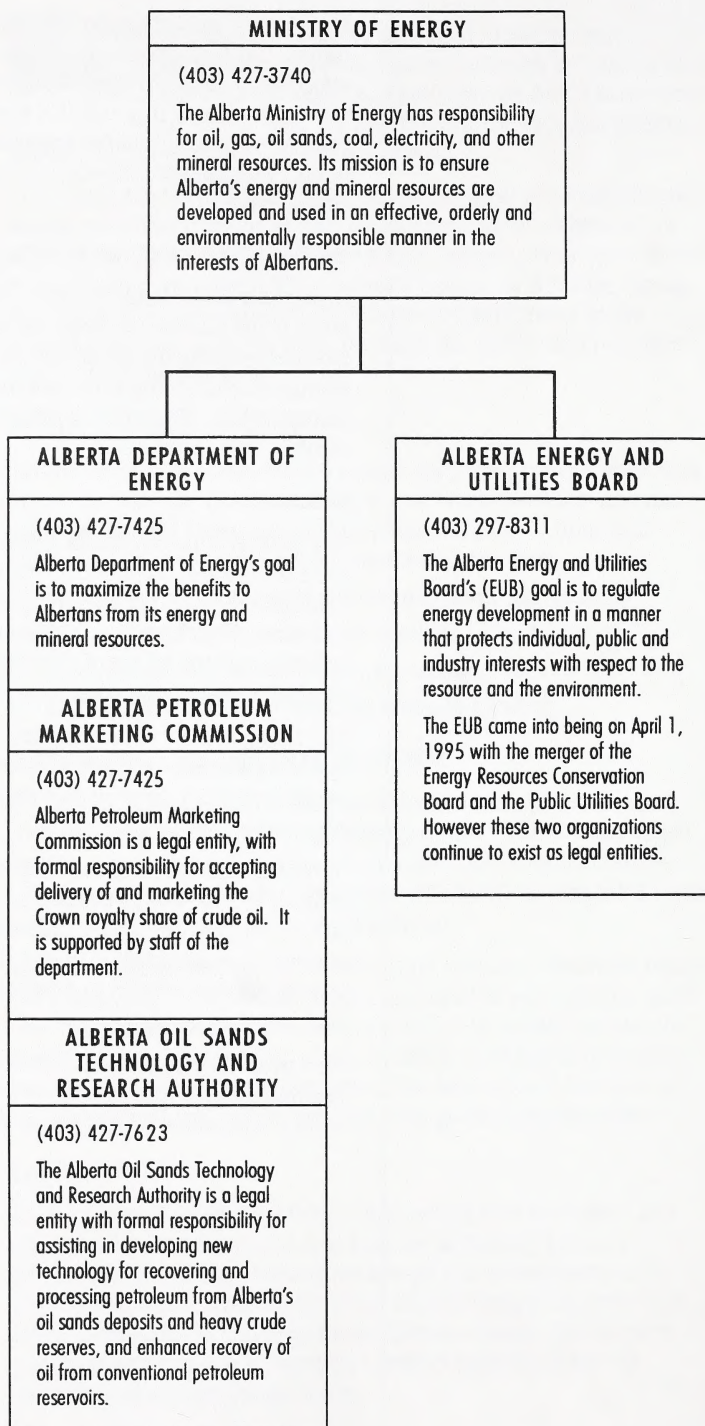
Over the next few years I look forward to working with Ministry officials and the energy industry to implement policy decisions that will further simplify the royalty structures and regulatory requirements, complete the deregulation of electricity, resolve issues regarding tolls for natural gas transmission in Alberta and ensure adequate supplies for Alberta's energy industry.

This annual report outlines the Energy Ministry's contribution to creating a dynamic climate for growth, and includes details of ongoing work to streamline oil and gas royalty and tax programs.

Ministry Structure, Mission and Mandates

MINISTRY ENTITIES

Alberta Department of Energy and the Alberta Energy and Utilities Board (EUB) comprise the Alberta Ministry of Energy.



Operational Overview

CORE BUSINESSES: A SUMMARY

Disposition of Energy and Mineral Resources:

Alberta Department of Energy is responsible for managing, in consultation with industry and government agencies, the disposition of Crown mineral rights, advocating access to those rights; and encouraging development of Crown mineral resources.

Collection of the Crown's Energy and Mineral Revenue:

Alberta Department of Energy is responsible for assessing and collecting the Crown's mineral resource revenue received by means of rentals, bonuses, royalties, and freehold taxes.

Policy Analysis and Advice:

Alberta Department of Energy is responsible for analysing, forecasting market and revenue developments, and reviewing programs in order to assist government decisions and implementation of those decisions and for representing government positions in intergovernmental discussions and in regulatory proceedings in other jurisdictions.

Energy Research:

Alberta Department of Energy is responsible for promoting the expansion of Alberta's energy resources by supporting the development of economically viable and environmentally acceptable processes for the recovery and upgrading of oil sands and heavy oils, as well as supporting research and development activities related to hydrogen, coal, and other energy resources.

External Relations:

Alberta Department of Energy is responsible for directing the Ministry's participation in international organizations and related activities to support industry's expanded trade and development.

OPERATIONS AND SERVICES: A SUMMARY

- Buoyed by high oil prices and improved natural gas prices, Alberta's oil and gas industry posted remarkable growth with investments of \$9.5 billion in the oil and gas sector in calendar year 1996.
- Gas production increased by approximately 6 per cent to a record 4.9 trillion cubic feet, more than 80 per cent of Canada's production.
- Alberta is one of the world's top oil producers, producing 72 per cent of Canada's conventional oil, and 100 per cent of its bitumen and synthetic oil.
- Following the introduction of the new generic oil sands royalty regime, industry has announced significant increases for future capital investments in oil sands of approximately \$11 billion.
- Purchases of petroleum and natural gas licenses and leases climbed from 4.2 million hectares in 1995/96 to more than 4.5 million hectares in 1996/97, an increase of seven per cent.
- Industry completed a total of 9 476 wells, the highest total on record. (Calendar year 1996. Source: Daily Oil Bulletin)

The strength in oil and gas prices in 1996/97 increased investor interest in the oil and gas sector and allowed the industry to raise a record \$7.3 billion in equity and debt funding. These funds, destined for exploration and development purposes, will further boost the Alberta economy, contributing jobs for Albertans and helping to secure health and education programs.

KEY FACTORS INFLUENCING DEPARTMENT OF ENERGY PERFORMANCE

- Oil prices increased to an average of \$22.84 (US) (1995/96 – \$18.66) a barrel for West Texas Intermediate because of strong growth in world oil demand and slower than expected growth in non-OPEC production. This in turn helped boost the price at the Alberta wellhead to \$28.32 (Cdn) (1995/96 – \$22.35), resulting in a \$329 million increase in crude oil royalties.
- Alberta natural gas reference prices averaged \$1.77 (Cdn) (1995/96 – \$1.39) per thousand cubic feet because of colder weather in North America and low inventories in the United States. This resulted in an increase in natural gas royalties of \$289 million.
- Increased demand for Crown petroleum and natural gas rights resulted in issuing 9894 agreements in 1996/97 up from 7396 in 1995/96, an increase of 34 per cent. Correspondingly, revenues for petroleum and natural gas rights increased by \$351 million.
- Strong world crude oil prices also translated into higher prices for synthetic crude oil. This in turn led to an increase of \$206 million in synthetic crude oil royalties.
- Overall, the Government of Alberta's non-renewable resource revenues from royalty, rentals and fees, bonuses and sales of Crown leases, and freehold mineral rights taxes, climbed 34 per cent to \$4.4 billion in 1996/97 from \$3.2 billion in 1995/96 on the strength of higher oil and natural gas prices and increased industry resources and sales of crown leases.

Analysis of Key Activities

DISPOSITION OF ENERGY AND MINERAL RESOURCES:

- Department officials worked closely with industry representatives to complete the *Mines and Minerals Amendment Act*. This Act, passed in April 1997, allows for new regulations to simplify the administration of mineral rights.

COLLECTION OF THE CROWN'S ENERGY AND MINERAL REVENUE:

- Crude oil marketing
On April 25, 1996, the department named three companies — Gulf Canada Resources Limited, PanCanadian Petroleum Limited and CANPET Energy Group Inc — to carry out the marketing of the Crown's royalty crude oil. Effective with the June 1996 production month, the three companies market Alberta's royalty crude for five years at a marketing fee of five cents per barrel. The contracts contain price benchmarks based on industry postings as performance measures, which the department reviews monthly. In addition, in 1997/98 the Department intends to assess the effectiveness of the crude oil marketing initiative.
- Mineral Revenues Information System (MRIS)
Ministry officials achieved a major milestone with the completion of the Mineral Revenues Information System (MRIS) invoicing. As a result the department began issuing gas royalty invoices on a current-month basis.

POLICY ANALYSIS AND ADVICE

- Electricity deregulation
Alberta leads North America in restructuring its electricity industry through an orderly transformation into a fully competitive market-driven structure. The Department of Energy has established a legislative framework which will introduce efficiencies while maintaining reliability and fairness for all Albertans.
- Generic oil sands royalty regime
The generic oil sands royalty regime has been instrumental in industry's announced investments of almost \$11 billion in new and expansions to existing oil sands projects.

ENERGY RESEARCH

- The Underground Test Facility project continued to develop steam assisted gravity drainage (SAGD) technology by demonstrating production from horizontal wells drilled from the surface.
- Gulf Canada Resources Limited and Suncor have approved funding for drilling of horizontal wells drilled from the surface to research further the use of SAGD technology in the extraction of oil from the oil sands.
- The Alberta Taciuk Process (ATP) was developed by the Alberta Oilsands Technology and Research Authority. Suncor is conducting further tests on the ATP technology in Australia using the process to extract oil from shale deposits.

Alberta companies to establish partnerships and joint ventures with companies in Argentina, Brazil, Ecuador and Venezuela.

- Participated in a first review of progress under the National Action Program on Climate Change (NAPCC). The review found that NAPCC had contributed to significant reductions in greenhouse gas emissions. Canada's emissions in 2000 are forecast to be eight per cent above the nation's 1990 levels. Prior to the development of the Voluntary Challenge and Registry Program, it was estimated that Canada's emissions would be 13 per cent above 1990 levels. Alberta organizations are taking a leadership role in participating in the Voluntary Challenge and Registry Program and are achieving significant greenhouse gas reductions.

EXTERNAL RELATIONS

- Promoted Alberta's energy advantage. This included a mission by the Minister to assist

REPORT OF THE AUDITOR GENERAL ON THE RESULTS OF APPLYING SPECIFIED AUDIT PROCEDURES TO PERFORMANCE MEASURES

To the Minister of Energy:

The reporting and auditing of performance measures in the public sector is under development in Canada. Over the next few years, improvements to the Ministry's performance reporting can be expected as the systems and procedures to support performance measurement are developed. As the systems and audit evidence improve, the nature of my auditing procedures is changing to enable the provision of audit assurance. I support the initiative to provide performance information and I am encouraged by progress to date.

I have performed the following procedures in connection with the Ministry of Energy's set of measures included in the *1996-97 Annual Report of the Ministry of Energy* as presented on pages 10 to 14 and pages 24 and 25.

1. Information obtained from an independent source, such as Statistics Canada, was agreed with the information supplied by the stated source. Information provided internally was agreed to the reports from the systems used to develop the information.
2. The calculations which converted source information into reported measures were tested.
3. The appropriateness of the description of each measure's methodology was assessed.

As a result of applying the above procedures, I found no exceptions. However, these procedures do not constitute an audit of the set of performance measures and therefore I express no opinion on the set of measures included in the *1996-97 Annual Report of the Ministry of Energy*.



FCA
Auditor General

Edmonton, Alberta
August 22, 1997

Results Analysis

GOALS, STRATEGIES, PERFORMANCE MEASURES AND RESULTS

Alberta's oil and gas industry is a primary driver of the province's economy and is largely responsible for Alberta's 1996 economic growth of 2.6 per cent. This growth translates into jobs and economic prosperity for Albertans. The Ministry's first goal is to maximize the benefits to Albertans from Alberta's energy and mineral resources. To meet this goal Alberta Department of Energy set strategies in six areas: Resource Management; Environment; Economic Benefits; Research and Development, Oil Sands Development; and, Advocacy.

Resource management

As part of its commitment to continue contributing to the Alberta Advantage and to help maintain the current and long-term prosperity of the province, the Department works to maximize the benefits to Albertans from the province's energy and mineral resources. This includes working closely with industry and actively participating in regulatory proceedings to represent Albertans' interests on issues such as access to markets and pipeline transportation of oil and natural gas.

What we did:

- Began implementing the *Electric Utilities Act* so that Alberta continues to offer electricity rates that are among the lowest in North America and so that the industry continues to meet the province's needs.

With electric industry stakeholders examined:

- how and at what pace existing regulated generating units would be removed from regulated service, and how to ensure all new investments are guided by market forces.
- put in place a process to appoint an independent transmission administrator to ensure non-discriminating access to Alberta's integrated electricity system.
- clarify the policy intent of the portions of the *Electric Utilities Act* dealing with industrial systems.

- Amended the *Gas Resources Preservation Act* to clarify the Alberta Energy and Utilities Board's right to divert gas to Alberta core consumers in cases where an energy supply disruption threatens life or property. The amendment emphasized the government's policy of market-based supply security, while retaining clear government authority to act in emergencies.
- Amended the *Gas Utilities Act* so that the Alberta Energy and Utilities Board has more flexibility in setting tolls charged for pipeline transportation of natural gas in Alberta, including incentive arrangements, when it believes tolls are in the public interest. This allowed the Board to approve an incentive toll arrangement on the NOVA Gas Transmission system.
- Reviewed 13 regulations. Of these, 10 were rescinded, one was updated and retained, and one will be retained until September 1997 when it will be rescinded. Action on one was postponed until 1997.

PERFORMANCE MEASURE

CAPITAL SPENDING AND SHARE OF INVESTMENT

The total amount of capital spending in the oil and gas sector in Alberta.

Results:

Calendar Year	1993	1994	1995	1996	1996
Capital Spending in Canada (billions)	\$6.5	\$8.9	\$8.9	\$9.5 (Estimate)	\$7.0 (Target)
Alberta % of Canadian Total	71.9	71.5	71.6	72 (Estimate)	72 (Target)

Source: 1994-95 data — Canadian Association of Petroleum Producers Statistical Handbook:

1995 Net Cash Expenditures of the Petroleum Industry, June 1996
1994 Net Cash Expenditures of the Petroleum Industry, July 1995
Capital Oil Sands Expenditures, 1958-95.
1993 data — Petroleum Monitoring Agency (PMA)

Capital spending is an indicator of the economic health of the oil and gas industry and has a direct impact on employment levels in Alberta.

The percentage of total Canadian investment helps to track Alberta's share of overall investment dollars.

See box on page 9

- Worked with the Alberta Chamber of Resources on an industry-government task force to prepare recommendations for a mineral development strategy for Alberta.
- Worked with Alberta Environmental Protection and other ministries to develop an improved integrated resource management framework that supports Alberta's vision for sustainable development. The framework envisions a three-tiered decision-making system: provincial, regional and sub-regional.

Environment

The Government of Alberta addresses environmental concerns resulting from the development, production and consumption of energy resources. A Department focus is on integrating resource development and environmental protection, and on helping the Government develop initiatives to manage atmospheric emissions associated with energy production and use.

What we did:

- Submitted the first progress report on Alberta Government climate change activities, which included a commitment to reduce greenhouse gas emissions associated with government emissions by 14.1 per cent from 1990 levels by 2000. In 1996 Alberta Government emissions were reduced by approximately 10 per cent from 1995 levels, surpassing the target set in the action plan.
- The Department chairs the Alberta Government's Voluntary Challenge Implementation Team. The Government of Alberta received an award from the national office of the Voluntary Challenge and Registry Program for its action plan to reduce greenhouse gas emissions and its ongoing support of the program. Alberta was the only government in Canada to receive an award.
- For the past two years (the period for which data is available) Alberta has encouraged organizations to participate in the Voluntary Challenge and Registry (VCR) Program. Alberta leads the way in active participation in this program, with 136 organizations participating with 83 action plans and with more than 60 per cent of the province's emissions covered by VCR action plans.

PERFORMANCE MEASURE

PARTICIPATION IN THE VCR (VOLUNTARY CHALLENGE AND REGISTRY) PROGRAM, AND REDUCTION IN GREENHOUSE GAS EMISSIONS

The participation rate for Alberta organizations in the VCR Program and targets set by the government for their own VCR emissions.

The results

Per cent of emissions covered by letters of intent or action plans

Calendar Year	1995	1996	1996
	53%	61% (Actual)	70% (Target)

Alberta Government's Action Plan (in kilotonnes CO₂)

1990	1995	1996	1996
526 (Base year)	522	477 (Actual)	507 (Target)

Source: National VCR Office and Alberta Department of Energy, Environment Affairs Branch

The Alberta Government began participating in the VCR Program in 1995 and has been coordinating the effort to have organizations sign on and develop action plans to deal with this issue since then. The 1995 figure represents letters of intent only, while the 1996 number is based on actual action plans submitted by December 31, 1996.

The Alberta Government's overall action plan calls for reductions in CO₂ emissions of 14 per cent by the year 2000 compared to the 1990 levels.

See box on page 9

- The Deputy Minister served as the Alberta Clean Air Strategic Alliance (CASA) board President. CASA's role is to establish priorities and more cost-effective ways of maintaining and enhancing air quality in the province. It developed 20 recommendations for improvements to the sulphur management system for Alberta, examined gas flaring and vehicle emissions, and participated in a vehicle emission testing program. As a participant in the Eco-Efficient Communities Initiative, CASA prepared a guide for small and mid-sized municipalities on reducing greenhouse gas emissions.

Economic Benefits:

The Department of Energy works to ensure that Albertans, who own the resource enjoy the benefits of its development. Alberta's fiscal system is stable, predictable and responsive to economic changes in a market-based economy.

What we did:

- Reviewed rules that govern the way Alberta Department of Energy administers the rights to explore for and develop oil and natural gas rights leased to private sector companies. Following consultation with industry, the Legislature passed the *Mines and Minerals Amendment Act*. Implementation of regulations arising from the new Act is on schedule for completion by December 1997.
- Began developing an Enhanced Oil Recovery Program model as a preliminary step in determining whether changes in legislation and policy are needed.

Research and Development

Research is part of a strategic plan that recognizes the importance of the province's hydrocarbon and mineral resources, Alberta's reputation as a leader in energy research and data collection, and its technical expertise in the energy field. A major responsibility is to work with industry and other organizations to develop new technologies needed for the further commercialization of Alberta's vast oil sands resources.

What we did:

- Conducted further field pilot studies of new technologies including Steam Assisted Gravity Drainage (SAGD) that enable producers to recover bitumen from oil sands reserves too deep for surface mining but too shallow for other processes. This research has made available more than 80 billion barrels of bitumen that was previously considered to be unrecoverable. As a result, industry has announced plans for major investments in SAGD projects and other related in situ technologies.

PERFORMANCE MEASURE

RESEARCH INVESTMENT

Total expenditures for research projects receiving funding from the Ministry and the ratio of total funding for those energy-related projects.

The results:

	1993/94	1994/95	1995/96	1996/97 (Actual)	1996/97 (Target)
Total funding (Millions)	\$40.5	\$36.7	\$39.2	\$29.4	\$44.4
Ministry (Millions)	\$12.4	\$12.0	\$14.3	\$10.5	\$14.2
Ratio	3.1:1	3:1	2.7:1	2.8:1	3:1

Source: Alberta Department of Energy
Research and Technology Branch

Investment in research leads to technological advances. These advances help oil companies recover a greater proportion of the oil and gas discovered. They also help lower the costs of production, making the industry more economically secure through downturns in the prices of oil and gas. A major Ministry responsibility is to work with industry and other organizations to develop new technologies needed for the development of oil sands resources. Oil sands production is forecast to reach the level of our conventional production in the next decade and will become a vital part of Alberta's future.

See box on page 9

- Introduced programs to reduce the cost of oil sands mining and extraction including:
 - researching improved methods for handling oil sands tailings and other products of the extraction processes.
 - enhancing oil recovery, and development of improved methods of reservoir access, fluid treatment and handling.
 - reducing the cost of upgrading bitumen to a high-grade synthetic crude through pilot-scale tests at the National Centre for Upgrading Technology, jointly funded by the Alberta and federal governments.

- funding university research programs in areas ranging from geophysics to hydrotransport and hydrocracking.
- Supported the Energy Research Council, a volunteer group that provides advice to the Energy Minister on research priorities, to determine the best role for government in research, and to identify ways to optimize use of research funding.

Oil sands development

Huge deposits of oil sands underlie about 77 000 square kilometres of Alberta and contain about 1.7 trillion barrels of oil. About 300 billion barrels, equal to Saudi Arabia's proven reserves, are potentially recoverable. New oil sands developments, combined with continuing production of conventional oil, are enabling Alberta to increase oil exports.

What we did:

- Incorporated key terms of the generic oil sands royalty regime into the *Mines and Minerals Amendment Act* to provide greater certainty for project developers.
- Worked to complete the regulations that supported the generic regime.
- Completed transition agreements allowing new oil sands projects and expansions of existing projects to proceed while final details of the generic oil sands royalty regime are finalized. Signed interim agreements for a number of new projects and completed two transition agreements.

Advocacy

The Ministry works to help attract resource development, promote energy marketing and remove international barriers.

What we did:

- Published and distributed *Environmental Regulation of Natural Gas Development in Alberta, Canada* to key audiences in the US Pacific Northwest, and in Canada to provide information about the benefits of Alberta natural gas and the environmentally sound manner in which it is regulated.

PERFORMANCE MEASURE

ENERGY EXPORTS

The value of energy exports from Alberta.

The results:

	1993	1994	1995	1996	1996
				(Actual)	(Target)
Energy Exports (Billions)	\$12.3	\$13.9	\$14.7	\$17.6	\$13.3

Source: Alberta Department of Economic Development and Tourism, Alberta's Top 25 Commodity Exports, Alberta's International Exports, April 1997.

Alberta's energy exports are important to the economy of Alberta and Canada. The ability to generate trade and foreign currency is vital in today's global economy. The value of Alberta's oil and gas exports measures the magnitude of the trade in energy resources.

See box on page 9

- Promoted Alberta's energy advantage in the United States and discussed royalty administration, land use policies and the North American energy supply.
- Worked with other provinces to encourage the federal government to restore rebates for income tax paid by investor-owned utilities under the *Public Utilities Income Tax Transfer Act*, to restore a level playing field for all electric utilities. A report on the impact of repealing this Act was made available to federal and provincial Ministers in the fall of 1996. They have not yet met to discuss it.
- The Government of Alberta agreed to take forward the Canadian Petroleum Products Institute complaint on Bill C-29, *The Manganese Based Fuel Additives Act* under the Agreement on Internal Trade. Since passing of Bill C-29, the Department of Energy is supporting Federal and Intergovernmental Affairs and the Institute regarding this complaint.

PERFORMANCE MEASURE

EMPLOYMENT IN THE OIL AND GAS INDUSTRY

The number of people employed in the upstream oil and gas industry in Alberta.

The Results:

Calendar Year	1993	1994	1995	1996	1996
				(Actual)	(Target)
Upstream Production Industry	37 400	38 500	44 100	39 800	38 500
Service Industry	23 500	24 400	25 000	29 100	24 400
Total	60 900	62 900	69 100	68 900	62 900

Source: Statistics Canada Labour Force Survey

The oil and gas industry is a major employer in the Alberta economy, so direct employment in the industry is a significant indicator of the financial health of the industry and the province's economy. The Energy Ministry helps maintain high employment levels by attracting resource development, promoting trade in energy products, removing international barriers and facilitating development of competitive markets.

See box on page 9

Future challenges

The department will continue to contribute to the government's core businesses of People, Prosperity and Preservation and support the government's priorities by

- working to facilitate the growth of value-added industries such as petrochemicals,
- encouraging the global energy industry to capitalize on sectors such as the oil sands using new technologies that have reduced costs,
- promoting the growth of energy exports,
- facilitating the development of sufficient pipeline capacity to ensure that these markets can be served, and

- continuing to reduce unnecessary regulatory processes.

This will reduce costs for industry and government, and help Alberta to remain competitive.

Priorities

- Complete the orderly transformation of Alberta's electric industry into a fully competitive, market-driven structure. Working with industry, the Department will resolve issues such as how and when existing generating plants should be removed from regulated service and options for end-user choice.
- Resolve issues relating to the flat rate system for transporting Alberta natural gas.
- Continue to simplify royalty processes to reduce administrative costs for both government and industry.
- Develop a long-term response to environmental concerns such as climate change which recognizes Alberta's and Canada's economic and environmental interests. Actions will be cost effective and consistent with our trading partners.
- Maximize economic benefits from natural gas production and value-added upgrading of gas liquids within Alberta, while meeting the objectives of producers who wish to sell their products at full market value and the petrochemical industry which requires an adequate supply.
- Improve information management within the Ministry and between the Ministry and industry by implementing a new information management strategy based on a common, coordinated vision.
- Fully implement the generic oil sands royalty regime within the *Mines and Minerals Amendment Act*. Investors will be certain of costs and other features, and have rules and terms that are clear.

EUB Operational Overview

CORE BUSINESSES: A SUMMARY

Adjudication and Regulation

The EUB adjudicates matters related to utilities and energy within Alberta and ensures that the development, transportation and monitoring of the province's energy resources are in the public interest. This core business encompasses the EUB's hearing and decision-making processes and the regulatory framework for energy and utilities.

Applications Process

The applications process includes handling, processing and ruling on new applications for energy and utility activities or amending existing approvals. The EUB processes thousands of applications of various types each year. Applications are needed to ensure utility rates are fair and reasonable and energy activities are carried out in the public interest.

Surveillance and Enforcement

The EUB has a responsibility to maintain a rigorous surveillance and enforcement process for energy and utility facilities. With ongoing input from industry, government and the public, this broad function encompasses reviewing of industry compliance, data, records and inspections and responding to the results of this work. This process safeguards the integrity of other regulatory requirements designed to protect public safety and the environment.

Information and Knowledge

The legislated information and knowledge responsibility of the EUB includes the collection, storage, analysis, appraisal and dissemination of information. It is based on the principle that open access to information allows the EUB, industry, government and the public to make informed decisions about energy and utility matters. As such, the EUB's information role is integral to other core processes such as resource appraisal, application review, and surveillance.

EUB OPERATIONS AND SERVICES: A SUMMARY

For detail on each of the services summarized here, please go to pp. 16 - 20 of this report.

- conducted 72 hearings
- issued four new and three revised regulatory guides
- issued three Interim Directives and nine Informational Letters
- handled 19 551 applications and 22 500 corporate and environmental reviews
- monitored a growing infrastructure of 260 000 kilometres of EUB regulated pipelines, 73 155 operating wells and 740 gas plants
- carried out 11 000 inspections
- served 46 455 customers and handled \$2.1 million in information sales
- recorded 132 900 accesses to EUB web sites

KEY FACTORS INFLUENCING EUB PERFORMANCE

- Record levels of industry activity placed heavy demands on EUB processes for application review and monitoring of Alberta's cumulative energy and utility infrastructure. 1996/97 energy sector activity was double that of a decade ago. Numbers of well licences broke records.
- Public concerns related to safety, human and animal health, lifestyle and the environment continued to be a focus for several EUB hearings, surveillance and enforcement initiatives, and stakeholder consultation efforts.
- The move from large-scale utility rate hearings to negotiated settlements and incentive-based regulation challenged the EUB to develop new ground rules.
- A key feature of the EUB change agenda for 1996/97 was an ongoing commitment to the tradition of stakeholder input. Each new regulatory initiative, application process, or guide was the result of consultation. The feedback helped shape and improve new regulatory approaches.
- The transfer of the Alberta Geological Survey from the Department of Energy to the EUB, effective 1 April 1996, affected restructuring efforts at the EUB and challenged the organization to incorporate a new responsibility.
- The drive for increased efficiency, flexibility and effectiveness was key to major EUB restructuring efforts in 1996/97 and its move to strategic and operational planning.

Analysis of Key Activities

Awareness of ongoing services that make up the EUB's four core businesses, is key to understanding the EUB's performance vis-à-vis its 1996/97 business plan priorities, outlined on pp. 20 - 26. While numbers alone indicate activity, the real goal is effectiveness, measured by outcomes. Taken together, services provide tangible evidence of EUB's effectiveness in fulfilling its regulatory mandate.

ADJUDICATION AND REGULATION

Major Regulatory Hearings and Decisions

Thousands of applications; few hearings

Hearings held in 1996/97 met the fairness requirement that people affected by energy or utility matters be heard. Of the thousands of applications the EUB received, several hundred generated enquiries for information or concerns from industry and the public. Most concerns were resolved through direct interaction between those involved and the applicant, often in response to the EUB's consultation requirements. For example, in March 1997, the EUB approved Suncor Inc.'s Steepbank oil sands mine near Fort McMurray without a public hearing after the company satisfactorily addressed all concerns.

As a general principle, when landowners and companies agree that EUB facilitation efforts would be helpful, staff assist on a one-time basis. When the concerns are between companies, EUB staff encourage parties to resolve issues outside the hearing process if possible.

However, unresolved matters resulted in 72 hearings in 1996/97, one fewer than the previous year. There were 49 hearings for utilities, including 35 minor ones related to routine exemptions from certain requirements. Of the 23 hearings on energy facilities, 12 were company-to-company matters and 11 involved public objections to energy projects.

In its most significant hearings and decisions for 1996/97, the Board:

Well and Facilities

- 10 May 1996 - Approved an amendment to Imperial Oil Resources Limited's application for directional and horizontal drilling to access oil sands reserves previously tapped by cyclic steam stimulation. The approval carried conditions for reducing the risk of well casing failures.
- 27-29 August 1996 - Conducted a combined hearing for three pipelines in the Cold Lake/Hardisty area, eventually approving two pipelines in September and November 1996 and denying the other in February 1997.
- 27 September 1996 - Subject to conditions, approved Gulf Canada Resources Limited's application to modify its underutilized Strachan gas processing plant, near Rocky Mountain House, to reprocess a sidestream volume of gas from the NOVA Gas Transmission Ltd. system to recover natural gas liquids.
- 1 - 4 October 1996 - Held a hearing that featured significant community concern about Shell Canada Limited's application to increase the amount of sour gas processed at its Caroline plant. At year end, the decision was pending.
- 26 - 29 November 1996 - Completed a two-part hearing process, originally begun in February 1996, into an application by Encal Energy Limited to allow an existing sweet natural gas pipeline to carry slightly sour gas. The Board considered legal, technical, environmental and economic matters, with emphasis on public safety. The decision was pending at year end.
- 23 December 1996 - Denied Canadian 88 Energy Corp.'s application for a licence to drill a well in the Rocky Mountain House area because of inaccurate information and problems related to emergency planning. This application was refiled and approved after the company addressed outstanding issues to the Board's satisfaction.
- 24 January 1997 - Approved four applications to construct and operate three competing pipelines to transport natural gas liquids and crude oil from

northwestern Alberta. The Board concluded that market competition should determine the segments of proposed pipeline ultimately built.

Coal

- 13 January - 20 February 1997 - The first-ever EUB and the Canadian Environmental Assessment Agency joint panel held a major hearing into Cardinal River Coals Ltd.'s proposed surface coal mine south of Hinton. Major issues included ecological, social and economic impacts. A decision was pending at year end.

Utilities

- 31 May 1996 - Determined the terms and conditions for the direct purchase of natural gas by core gas consumers—residential, commercial and industrial users who depend on firm gas supplies. As of November 1996, consumers could buy gas from their utility company or directly from a producer or marketer.
- 13 June 1996 - Issued Phase II decision respecting NOVA Gas Transmission Ltd.'s first general rate application. The decision, which fixed rates and terms and conditions of service, confirmed that all shippers on the system would continue to pay the same rate to move gas, regardless of distance.
- 14 July - 23 October 1996 - Conducted a hearing involving major electric utilities in Alberta. The hearing was to restructure electric tariffs to separate the costs of generation, transmission and distribution in response to the implementation of the Electric Utilities Act effective 1 January 1996.
- 13 February 1997 - Approved the City of Medicine Hat's application to install a 33-MW steam turbine, replacing three aging turbines.
- 14, 26 February 1997 - Held hearings in response to customer concerns related to applications by Canadian Western Natural Gas Company Limited, Northwestern Utilities Limited and Centra Gas Alberta Inc. to increase their winter gas cost recovery rates. A decision was expected early in the next fiscal year.

Regulatory Initiatives

*New Regulatory Guides**

The EUB issued four new and three revised guides in 1996/97. The guides—primarily used by industry—provide comprehensive guidelines for companies to ensure compliance with requirements. The key guides were:

Guide 20: Well Abandonment Guide

Guide 33: Well License Application Guide

Guide 50: Drilling Waste Management (also issued Guide 50-1: A Landowner's Guide to Drilling Waste Disposal from Oil and Gas Wells)

Guide 56: Energy Development Application—Guide and Schedules

Guide 58: Oilfield Waste Management Requirements for the Upstream Petroleum Industry

*Interim Directives and Informational Letters**

In 1996/97, the EUB issued three Interim Directives (IDs) and nine Informational Letters (ILs) that helped clarify, update or streamline regulatory processes:

ID96-2 Facility Application Requirements

ID96-3 Oilfield Waste Management Requirements for the Upstream Petroleum Industry

ID 97-1 Horizontal Oil Wells—Revised Production Rate Limitations

IL96-5 Requirements for Applications for Permits to Remove Natural Gas from Alberta

IL96-6 Solution Gas Conservation and Emissions Reduction

IL96-7 EUB/AEP Memorandum of Understanding on the Regulation of Oil Sands Developments

IL96-8 Domestic Gas Wells—Changes to the EUB Well Licensing and Transfer Regulations and Administration

IL96-9 Revised Guidelines for Minimizing Disturbance on Native Prairie Areas

IL96-10 A Memorandum of Understanding between AEP and EUB Regarding Coordination of Release Notification Requirements and Subsequent Regulatory Response

IL96-11 Government of Alberta Emergency Response Support Plan for an Upstream Petroleum Incident

IL96-12 Use of Flare Tanks as an Alternative to Flare Pits

IL96-13 Revision of Guide 50—Drilling Waste Management

Legislation

The EUB is governed by 42 provincial statutes. During 1996/97, amendments were made to the *Alberta Energy and Utilities Board Act* and three related acts. The changes arose from the 1995 merger of the Energy Resources Conservation Board and the Public Utilities Board, and the 1996 incorporation of the Alberta Geological Survey into the EUB. The changes established the EUB as the sole employer of all staff of the former entities.

Legislative changes also granted the EUB authority to obtain additional funding from the industries it regulates. Other legislative amendments during the year included changes to the *Gas Resources Preservation Act* and the *Gas Utilities Act*.

APPLICATIONS PROCESS

Fiscal year 1996/97 was a record year for applications with a total of 19 551 and more than 22 500 corporate and environmental reviews. To efficiently handle this increased activity, the EUB continued its process of regulatory review to ensure requirements are needed and, if so, that applications are handled in a streamlined fashion. The following table summarizes EUB application activity for 1996/97.

* Copies of EUB decisions, guides, IDs, ILs and other information are available from EUB Information Services at 403-297-8190.

APPLICATIONS HIGHLIGHTS 1996/97

ENERGY DEVELOPMENTS (19 437 TOTAL)

Wells

- 12 894 well licences
(an increase of 31% from 1995/96)
- 40 critical sour well applications
- 244 resume drilling applications
(re-entry of abandoned wells)

Production Facilities

- 388 applications for new oil and gas batteries and compressor stations, plus 349 modifications to existing projects
- 29 new gas plant approvals
- 68 modifications to existing gas plants

Pipelines (new)

- 3611 pipeline permits

Other Oil and Gas

- 258 water and waste disposal schemes
- 8 waste management facilities
- 14 industrial development permits
- 365 other gas-related approvals
- 968 other oil-related approvals

Oil Sands

- 4 applications for major plant expansions/modifications at mining projects
- 28 new experimental and primary recovery oil sands schemes

Corporate Reviews

- 7560 well name changes
- 10 986 well licence transfers
- 2128 pipeline transfers

Environmental Reviews

- 225 sour gas flaring permits
- 280 emergency response plans
- 1567 subdivision referrals

Coal

- 136 applications for new/modified coal projects

Hydro and Electric

- 33 hydro and electric installations

Utilities (114 total)

- 19 gas utility rate applications
- 6 electric utility rate applications
- 47 special franchise agreements
- 35 exemptions
- 7 others
- 959 telephone and 198 written complaints related to utility rate matters

SURVEILLANCE AND ENFORCEMENT

During 1996/97, the EUB had 90 field surveillance staff working out of eight field centres in two (northern and southern) inspection districts. Field representatives monitored a growing infrastructure of 260 000 kilometres of pipelines, 73 155 operating wells and 740 gas plants. Field staff carried out 11 000 inspections and surveillances of well drilling and servicing operations, pipelines, batteries, gas plants and compressor stations. In addition, EUB Mine Development staff monitored 15 active coal mines and 6 oil sands mines and plants and maintained an information database on more than 2000 abandoned coal mines in Alberta.

Progress also occurred in reducing problems that affect the public and the environment:

- public complaints associated with drilling operations declined from 35 to 29 over the year
- total number of public complaints stood at 950
- the number of wells with surface casing vent flow problems dropped from 3514 to 3178
- to ensure lasting improvements in industry compliance, the EUB also continued to expand its electronic database of company information

INFORMATION AND KNOWLEDGE

The following table summarizes EUB services and activity related to information collection and distribution in 1996/97.

1996/97 INFORMATION HIGHLIGHTS

INFORMATION SERVICES

- EUB Information Services (Calgary) served 46 455 customers and handled \$2.1 million in information sales.
- EUB Information Services had an inventory of 133 guides, statistical reports, decisions and maps, and energy data related to some 35 subject areas including oil/gas/water fluid analyses, Board orders, coal mine plans, well logs and enhanced recovery schemes.
- EUB libraries received 5550 requests for information and loaned 4250 items.
- The Information Sales office of the Alberta Geological Survey (AGS) sold 1757 reports and maps.
- Accesses to World Wide Web sites of the EUB/AGS increased sixfold to 132 900 from 1995-96 levels; items available on the web site included a list of acts and regulations, informational letters (ILs) and interim directives (IDs), news releases and electronic order forms.
- EUB's automated fax system grew by 80 per cent to serve 880 customers; in 1996-97, nearly 85 per cent of ILs, IDs and general bulletins were distributed via broadcast fax.

RESOURCE APPRAISAL

- Released *Alberta's Reserves 1996: crude oil, oil sands, gas, natural gas liquids and sulphur*. The EUB held reserves data for 25 200 gas pools, 8000 oil pools and 15 oil sands deposits. The report showed remaining reserves of 1378 billion cubic metres (49 trillion cubic feet) of natural gas, 342 million cubic metres (2150 million barrels) of conventional oil, and 661 million cubic metres (4200 million barrels) of crude bitumen.
- Evaluated more than 10 000 wells with 22 000 hydrocarbon-bearing zones; data were used to support the application review process and update provincial reserves of in-place volumes of natural gas, conventional oil and crude bitumen.
- Defined reserves for some of the province's 247 coal deposits, which contain 35 billion tonnes of recoverable coal.
- The Core Research Centre, in northwest Calgary, housed a collection of 11.8 million vials of drill cuttings, 1295 kilometres of core samples, 210 000 trays of drill cuttings, and some 175 000 tour reports containing valuable drilling information on all wells drilled in Alberta.
- A monthly average of 280 companies, consultants, institutions and foreign delegations used the Core Research Centre facility.

Results Analysis: Strategies and Actions

The *Ministry of Energy Business Plan 1996/97 to 1998/99* identified one major goal and five strategies for the EUB. The following quotes are taken from the wording of the business plan for strategies, actions and milestones. This section explains achievements as well as reasons why some actions were delayed or modified. The reader should note that strategies covering public safety and environmental protection have been combined because of the similarity of the strategies for each.

EUB Goal

Regulate energy development in a manner that protects individual, public and industry interests with respect to the resource and the environment.

STRATEGY #1

Confidence in the regulatory process: Enhance EUB processes to ensure they remain and are seen to be fair, consistent and objective.

The EUB's raison d'être is to adjudicate issues related to energy developments and designated utilities within Alberta and to do so in a manner that ensures confidence in the regulatory process. Factors in maintaining this confidence for 1996/97 were:

- consistent decision-making
- stakeholder consultation
- the right of those affected to be heard
- regulatory guidelines to ensure that broad requirements are implemented and enforced.

What the EUB did ...

Continued to "solicit and respond effectively to input from customers on all regulatory matters".

- Following considerable industry input and focus group testing, introduced a new, simplified and integrated process for reviewing oil and gas facility applications.

- After 3 years of multi-stakeholder and public review, implemented updated requirements for managing and tracking upstream petroleum wastes, and introduced new guidelines for drilling waste disposal.
- Completed an extensive customer consultation process that identified priorities for inspection and enforcement activities of the Field Surveillance Group.
- Conducted a stakeholder review of flaring of solution gases from oil production in response to public concerns about the issue.
- Responded to broad public concerns about oil and gas industry impacts near the Caroline sour gas plant by initiating an innovative consultative effort, called an interrogatory process, with the community and area operators.

Continued implementing the “regulatory aspects of Alberta’s revised electricity policy”, which introduces competition into the electricity generation market.

- Continued the process of restructuring electric tariffs; lengthy public hearings in the summer and fall of 1996 delayed approval of a rate base and revenue requirements originally planned for late 1996, the decision was not expected until the summer of 1997.
- Continued to encourage utility companies and consumers to negotiate the settlement of rate issues prior to or in place of EUB hearings; development of detailed guidelines for negotiated settlements will be initiated in the fall of 1997.
- Under a new incentive regulation system, approved a 5-year settlement between NOVA Gas Transmission Ltd. (NGTL) and its customers that encourages operating efficiencies.

Brought “greater consistency to the regulation of the financial and facilities aspects of intra provincial natural gas transmission system”.

- In June 1996, issued a decision on Phase II of NGTL’s first general rate application, confirming that the public interest was best served by the postage stamp rate design, which charges NGTL shippers the same rate to move gas regardless of distance.
- Received an NGTL application (early in 1997) to reduce transmission rates — known as a load retention rate — on southern Alberta pipelines for producers who had signed precedent service agreements on the proposed Palliser Pipeline.

Enforcement is a key aspect of public confidence in EUB regulatory processes. In 1996/97, the EUB fulfilled this mandate by continuing to focus “compliance monitoring and enforcement activities on problematic operators and areas and providing consistent regulatory effort”. During the year, the EUB put tools in place to support the goal of lasting improvements in compliance.

- Adopted the concept of holding each company accountable for correcting non-compliance on a company-wide basis, not just for a specific site, area or business unit.
- Introduced a new enforcement policy based on the principle that repeated non-compliance results in escalating enforcement consequences based on well-defined steps known as enforcement “ladders”.
- By consistently applying a “firm and fair” enforcement policy, helped create a more level playing field among companies, ensuring non-compliant operators do not have a competitive advantage over those who abide by regulatory requirements.
- Suspended operations in cases of serious deficiencies that had an actual or potential adverse effect on the public or the environment at an estimated cost to industry of \$4.9 million in the area of field operations.

PERFORMANCE MEASURE

STAKEHOLDER CONFIDENCE IN THE REGULATORY SYSTEM

This performance measure is defined as stakeholder confidence that energy development is regulated in a manner that recognizes and protects public, industry and individual interests. This includes measuring industry, government and public perceptions of the consistency, fairness, and efficiency of the adjudication and regulation processes. It involves developing indicators of whether or not increased industry responsibility is affecting the achievement of other aspects of the EUB's regulatory mandate. It also involves measuring stakeholders' overall level of satisfaction with EUB services.

An index of stakeholder confidence in regulatory systems, based on a stakeholder survey, is under development and targets will be available early in 1998.

See box on page 26

STRATEGY #2:

Responsive regulatory framework: Reduced requirements while ensuring an effective regulatory environment

During 1996/97, stakeholders experienced a fundamental change in the EUB's approach to energy regulation. The new framework eliminates unnecessary requirements, clearly defines what compliance is required, and follows through with audits and consistent enforcement. This ensures industry accountability and maintains the EUB's mandate to maintain public safety, protect the environment and conserve resources.

What the EUB did ...

Enhanced "the EUB application review system" with emphasis on implementing "an Alberta Environmental Protection/EUB approval process for major oil sands operations" and "facility application procedures ...".

- Implemented a simplified process for reviewing applications for oil and gas facilities. Extensive information filing and reviews were replaced with a standardized application format in which applicants indicate compliance with regulatory requirements. An audit system and a comprehensive guide clearly defining regulations

support the new process. In place in May 1996, this streamlined process resulted in faster approvals, allowing the EUB to fulfil its mandate despite reduced front-end technical appraisals.

- Introduced requirements for the handling, treatment and disposal of upstream oilfield waste in response to a new regulatory responsibility transferred from Alberta Environmental Protection (AEP). New regulations ensure industry is accountable for long-term handling of the wastes in an environmentally acceptable manner.
- Started a coordinated and efficient approach to regulating the oil sands industry. The EUB and AEP integrated application review and approval processes for major oil sands developments to improve consistency and reduce application turnaround time.

Continued to actively participate in the "Ministry Regulatory Review Phase 3" process.

- The EUB remained committed to regulatory review, but the need to respond to high industry activity levels slowed progress and deferred certain reviews. Nevertheless, the EUB made regulatory improvements in many areas including facility application processing, elimination of some routine application types, and reduced requirements for reporting and application information.

Review of "interdepartmental requirements for approval of development, decommissioning and reclamation".

- Participated with Alberta Energy, AEP, Alberta Agriculture, Food and Rural Development, and the Canadian Association of Petroleum Producers (CAPP) to review application, referral and approval processes related to all aspects of energy developments over their life span. The objective is to examine industry/government and intra-government links to identify opportunities for streamlining and reducing overlap. The initial phase of the project, underway in 1996/97, related to obtaining surface access for well sites and pipeline construction.

STRATEGIES #3 AND #4

Public Safety, Risk Management and Environmental Protection:
Use the regulatory process to ensure that industry protects the public's safety and the environment.

The EUB's role in surveillance, inspection and enforcement is a key factor in giving Albertans confidence that energy facilities operate responsibly and efficiently in ways that protect public safety, the resource and the environment.

What the EUB did ...

"Focused monitoring and enforcement efforts on problem operators and areas".

- During the year, the focus was on problem operators, sensitive areas and higher-risk facilities, rather than specific incidents. For example, 44 per cent of all gas production inspections were directed at 19 companies, helping reduce the "major unsatisfactory" inspection rate for this type of facility to 7.8 per cent from 11.4 per cent in 1995/96.
- The effectiveness of a new enforcement approach was evident in almost \$4.9 million in lost and deferred revenues to industry in 1996/97, when 199 drilling and service rigs, oil and gas facilities and pipelines were temporarily shut down for compliance problems, about the same level as the previous year.
- A pilot project identified 9 companies with extremely poor inspection records. Following meetings with EUB field surveillance officials, those targeted companies had four facilities shut down in 1996/97. These enforcement actions helped reduce the "major unsatisfactory" rate to 5 per cent from 25 per cent in 1995/96.

Continued to "critically review incident reports to evaluate their causes and regularly implement revisions where necessary".

- Reviewed files of every oil production facility with repeat complaints or reports. The result was a 12-per-cent decline in complaints and reports in 1996/97.

Pursued "development of an integrated public safety management program for decision-making".

- This initiative was delayed by the need to better define the scope of the effort and EUB internal restructuring so as to pave the way to dedicate more staff to this effort.

Worked with "industry with respect to safety issues related to pipeline integrity and stress corrosion cracking (SCC)".

- Participated with the National Energy Board (NEB), the Canadian Energy Pipeline Association and CAPP to address recommendations in a November 1996 NEB inquiry report. The EUB continued to monitor developments related to SCC and encouraged industry to collect data to determine the extent of the problem in Alberta pipelines. The EUB is assessing whether changes are required in regulatory practices.
- EUB inspection staff formed teams to target specific areas and pipeline operators for inspections. This approach included a mechanism to communicate results of inspection work to all inspectors to ensure consistency and fairness throughout the province.
- A formal set of steps was developed to help ensure that repeat occurrences of third-party pipeline damage are dealt with consistently.

The EUB also undertook several important initiatives in 1996/97 not specifically mentioned in the business plan related to public safety and environmental protection:

- The EUB continued to lead program development to ensure proper industry abandonment of the increasing number of inactive wells and orphan facilities in Alberta. A July 1996 report recommended expanding an industry fund to include the abandonment and reclamation of production facilities and well sites, pipelines and non-sulphur recovery gas-processing plants. EUB staff also coordinated abandonment operations at 39 orphaned wells in 1996/97.

PERFORMANCE MEASURE

PROTECTION OF PUBLIC SAFETY AND ENVIRONMENT

Effectiveness of Regulation in Protecting the Safety and Environment

The EUB selected the following measures as indicators of its performance in the areas of protection of public safety and environment and protection of the public's interest in its resources.

	1994	1995	1996	1996
			(Actual)	(Target)
Blowouts/ 1000 wells drilled	0.1	0.5	0.5	0.2
Pipeline leaks/ 1000 km of pipeline	3.6	3.4	3.1	3.4
Improvement among operators with poorest inspection records	50%	33%	80%	60%

The EUB monitors long-term trends in the occurrence of incidents that have the potential to affect public safety or the environment such as blowouts or pipeline leaks. This work assists the EUB to decide whether revised regulatory policy is required to influence industry's performance in these areas. Tracking performance of operators with poor compliance records indicates whether the EUB's surveillance and enforcement practices are successful in achieving lasting improvement.

Source: EUB Field Surveillance 1996 Provincial Summaries
See box on page 26

- Worked with various groups to address concerns, particularly in rural areas, about the potential impacts of flare gas emissions and other petroleum industry activities. Following extensive stakeholder consultation, the EUB prepared a draft report dealing with issues related to the flaring of solution gases during the production of oil. The EUB also worked with the Clean Air Strategic Alliance on its ongoing review of flaring issues and supported the Alberta Research Council's November 1996 report on combustion processes and emissions from flaring.

- Continued working with stakeholders to consider agricultural and rural residents' concerns regarding the petroleum industry's impact on water, soil and air quality, and on livestock productivity and health. EUB representatives met with the Alberta Cattle Commission and other groups to address a July 1996 report that included recommendations to review energy industry practices and related regulatory requirements.
- Helped revise the Government of Alberta emergency response plan to support industry and local authorities in ensuring public safety related to any significant upstream petroleum incident.

STRATEGY #5

Optimize resource recovery: Ensure economic recovery of the resource and prevention of waste to maximize long-term revenue to the province.

As part of its legislated mandate, the EUB regularly reports on trends related to the reserves of and requirements for Alberta's energy resources. This work helps determine provincial economic policy and industry investment decisions. It also provides a basis for approving energy development applications in a manner that conserves Alberta's energy resources.

What the EUB did ...

Continued the EUB's ongoing role to "collect and assess relevant data to enable judgements about appropriate energy pool development strategy".

- In conjunction with the NEB, completed the Phase II review of Alberta's unconnected gas reserves, which are estimates assigned to pools that do not have wells connected to a gas gathering system. The review, covering 2385 unconnected single-well gas pools discovered from 1967-77, resulted in a 49.9-billion-cubic-metre reduction from the EUB/NEB's common reserves database.
- The review also included a reassessment of previously producing single-well pools, and single-well pools with a finished drilling date from 1978-95 that were abandoned without producing. This resulted in a reserve reduction of 38.3 billion cubic metres.

- The total reduction from both portions of the study equated to about a 6-per-cent reduction in Alberta's remaining marketable gas reserves. These affected the amount of gas available under Alberta's gas removal permitting process.
- Resource appraisal staff reviewed mining development applications to ensure optimal recovery of coal reserves.
- Published the *Crude Bitumen Reserves Atlas* which provides the estimated in-place reserves for Alberta's oil sands deposits.
- Revised production rate limitations and off-target penalties for horizontal oil wells, part of a larger and ongoing redesign of methods for determining allowables in pools subject to maximum rate limitations.
- Denied two requests from companies seeking to prevent other companies from drilling and producing gas associated with oil sands leases. The EUB agreed the issues warranted an inquiry.

Continued "resource appraisal initiative".

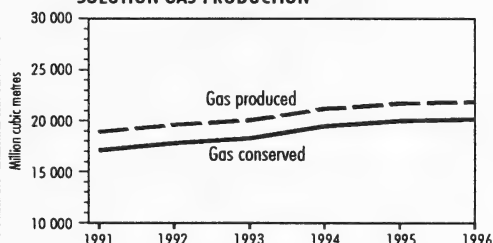
- Partly based on results of a customer survey the previous year, the EUB Resources Division was re-organized into six groups to regulate subsurface matters, surface coal and oil sands facilities, and mineral surveys. The division's more efficient structure will allow greater process alignment, consistency and flexibility, while reinforcing surveillance activity. This effort delayed work aimed at identifying and implementing further improvements in the area of resource appraisal.
- The EUB continued to forecast volumes and prices for oil, gas and other energy forms and to monitor crude oil markets. Market appraisal also helped Board Members and staff assess applications for energy projects and identify emerging issues that underpin regulatory decision-making.

PERFORMANCE MEASURE

PROTECTION OF THE PUBLIC'S INTEREST IN ITS RESOURCES

Effectiveness of regulation, surveillance, policies and decisions in achieving appropriate conservation in the development of Alberta's energy resources.

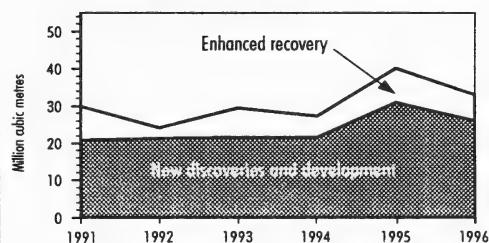
SOLUTION GAS PRODUCTION



Only a small portion of the gas produced with oil is flared. Most is gathered and used. Solution gas is a by-product gas that is produced as a result of oil production. The target is to maintain conservation at a level greater than 90 per cent. In 1996, this target was achieved.

Source: Alberta Energy and Utilities Board, Production, Injection and Disposition System.

CONVENTIONAL OIL RESERVE ADDITIONS



The implementation of enhanced recovery early on in the life of an oil pool results in a significant increase in the amount of the reserve that is recovered. Without enhanced recovery, additions to Alberta's recoverable oil reserves would be about 20 per cent less each year. The target is to ensure that industry undertake enhanced recovery wherever appropriate and feasible to maintain an average reserve addition rate over time of about 20 per cent of total reserve addition.

Source: Alberta Energy and Utilities Board, Alberta Reserves of Crude Oil, Oil Sands, Natural Gas and Sulphur.

The EUB requires companies to apply sound engineering and economic practices to prevent waste in the production of Alberta's energy resources. An example of resource conservation is the application of production rate controls to all new oil pools. These remain in place until operators have examined and implemented, where feasible, enhanced oil recovery and conservation of solution gas. These measures and others ensure optimal recovery of Alberta's oil and gas resources which contributes to sustainable energy production.

See box on page 26.

REPORT OF THE AUDITOR GENERAL ON THE RESULTS OF APPLYING SPECIFIED AUDIT PROCEDURES TO PERFORMANCE MEASURES

To the Minister of Energy:

The reporting and auditing of performance measures in the public sector is under development in Canada. Over the next few years, improvements to the Ministry's performance reporting can be expected as the systems and procedures to support performance measurement are developed. As the systems and audit evidence improve, the nature of my auditing procedures is changing to enable the provision of audit assurance. I support the initiative to provide performance information and I am encouraged by progress to date.

I have performed the following procedures in connection with the Ministry of Energy's set of measures included in the *1996-97 Annual Report of the Ministry of Energy* as presented on pages 10 to 14 and pages 24 and 25.

1. Information obtained from an independent source, such as Statistics Canada, was agreed with the information supplied by the stated source. Information provided internally was agreed to the reports from the systems used to develop the information.
2. The calculations which converted source information into reported measures were tested.
3. The appropriateness of the description of each measure's methodology was assessed.

As a result of applying the above procedures, I found no exceptions. However, these procedures do not constitute an audit of the set of performance measures and therefore I express no opinion on the set of measures included in the *1996-97 Annual Report of the Ministry of Energy*.



FCA
Auditor General

Edmonton, Alberta
August 22, 1997

Future Challenges

Fiscal year 1996/97 saw significant steps in implementing new ways of improving the EUB's regulatory business. The challenge ahead is to refine, extend and enhance these approaches.

A review of the business plan activities and results covered in the previous section of this report shows that the lifecycle of many major regulatory initiatives spans several years. This section highlights these ongoing efforts and new initiatives designed to deliver regulation efficiently and effectively.

Adjudication and Regulation

- continue to refocus regulatory processes on the principle of industry accountability by ensuring requirements are clearly identified and communicated
- achieve fairness, conservation, public safety, equity and environmental protection by implementing and fine-tuning initiatives begun earlier such as the Solution Gas Conservation Policy Review and the Oilfield Waste Management Program
- continue regulatory development related to the implementation of the *Electric Utilities Act* with special focus on guidelines for a negotiated settlement process
- develop new memoranda of understanding with government departments that clarify jurisdiction to reduce duplication and overlap
- enhance the coordinated AEP/EUB regulatory review process for oil sands applications as improvements are identified

- work with industry on the orderly development and cumulative effects issues arising from proposed oil sands mines and plants near one another

Applications Process

- expand the integrated process for oil and gas facilities to include well licences, thus continuing to reduce regulatory requirements, maintaining the efficient processing of applications, and introducing post-approval audits in place of pre-approval reviews
- focus on audit and enforcement systems to ensure accurate information in applications by formalizing and fine-tuning audit protocols
- phase in several new regulations related to oilfield waste management, such as additional requirements for manifesting and tracking oilfield wastes

Surveillance and Enforcement

- ensure continuous improvement of surveillance measures that focus on high-risk operations and problem areas of the province
- expand the EUB's enforcement policy by emphasizing escalating consequences and company-wide compliance
- expand the scope of the Orphan Program to include other upstream oil and gas facilities and associated reclamation in addition to wells
- develop an integrated public safety management program for decision-making; the objective is to summarize existing approaches and regulatory requirements for public safety, identify external interest groups to develop terms of reference for a Public Safety Review Initiative, and prepare a draft public safety policy.

Information and Knowledge

- expand the principle of industry accountability to include compliance with requirements for submitting information to the EUB, with emphasis on the assessment of fees for non-compliance; this initiative is aimed at reducing high levels of inaccurate and missing data

- initiate Phase III of the unconnected gas review, covering some 4200 unconnected single-well pools discovered from 1978-87
- initiate a pilot project to facilitate the electronic exchange of data
- move to greater private sector involvement in data dissemination
- identify and implement improvements in resource appraisal and forecasting/monitoring of energy prices and markets

Business Improvements

The achievement of EUB goals is made possible by sound business practices. In the near future, the EUB will complete an internal restructuring process.

- To gain greater flexibility, the EUB issued its first Directional Plan in the summer of 1996. The plan defined core business areas and long- and short-term priorities. This was followed by the EUB's first formal corporate operational plan. These two plans are now reflected in the Ministry of Energy Business Plan 1997-2000, which defines many of the challenges facing the EUB.
- The EUB will complete internal restructuring including the reorganization of the Corporate Services and Utilities Divisions. In conjunction with the earlier reorganization of the Facilities and Resources Divisions, the new, more efficient structure of the four divisions will enhance the EUB's ability to respond and adapt to the demands of a changing energy industry.

FINANCIAL
STATEMENTS

.....

MINISTRY OF ENERGY

Financial Statements March 31, 1997

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To the Minister of Energy

I have audited the consolidated statement of assets, liabilities and net assets of the Ministry of Energy as at March 31, 1997 and 1996 and the consolidated statements of operations and changes in financial position for the years then ended. These financial statements are the responsibility of the management of the Ministry. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

Section 14 of the Government Accountability Act requires the preparation of consolidated financial statements for the Ministry of Energy as at March 31, 1998. In preparing to meet this requirement, the accompanying financial statements have been prepared using the accounting policies and reporting practices that the government has established for ministries, as disclosed in Note 3. With certain exceptions that have caused me to provide a reservation of opinion, the basis of accounting is generally accepted accounting principles (GAAP). GAAP is the term used to describe the basis on which financial statements are normally prepared. Encompassing broad principles and conventions of general application, GAAP communicate information that is useful in making decisions and assessing performance. This objective is achieved by including all assets and liabilities, recognizing the effect of transactions and events in the period they occur and recording all costs of the Ministry's service delivery activities.

The following accounting policies are exceptions from generally accepted accounting policies:

PENSION OBLIGATIONS

Obligations to pension plans for current and former employees of the Department have not been recognized as a liability in the accompanying consolidated statement of assets, liabilities and net assets and consequently the annual change in the Department's liability has not been recognized in the consolidated statement of operations.

Determining the amount of the liability is dependent on taking a position, which I have not yet done, on how a share of any Provincial contribution to the elimination of the unfunded liability should be allocated to the Department. However, in my view, an amount of approximately \$4,721,000 due to pension plans at March 31, 1997 (1996 \$6,532,000), in the Department's capacity as employer, and which is reflected in the financial statements of Treasury Department, should be recognized as a liability in these financial statements. The effect of this understatement of liabilities is to overstate expenses for the year ended March 31, 1997, by \$1,811,000.

EMPLOYEE ENTITLEMENTS AND BENEFITS

Accrued employee vacation entitlements and long-term disability benefits for Departmental staff have not been recognized as a liability in the accompanying consolidated statement of assets, liabilities and net assets and consequently the annual change in the Department's liability has not been recognized in the consolidated statement of operations. In my view,

an amount of approximately \$5,019,000 representing accrued entitlements and benefits at March 31, 1997 (1996 \$5,123,000), and which is reflected in the financial statements of Treasury Department, should be recognized as a liability in these financial statements. The effect of this understatement of liabilities is to overstate expenses for the year ended March 31, 1997, by \$104,000.

UNEARNED REVENUE RELATED TO ANNUAL RENTALS

The Department of Energy collects annual rentals for the surface and subsurface dispositions administered by the Department. These rental fees are paid in advance and cover one year's rental; the year begins on each disposition's anniversary date. Rental fees are recognized as revenue on the anniversary date. As anniversary dates are distributed throughout the year, at March 31 of each fiscal year a portion of the rentals recorded in revenue will relate to the following fiscal period. This portion of the rentals has not been recorded as unearned revenue and consequently the annual change in the liability has not been recognized in the consolidated statement of operations. In my view, an amount of approximately \$65,000,000 representing unearned revenues at March 31, 1997 (1996 \$59,000,000) should be recognized as a liability in these financial statements. The effect of this understatement of unearned revenues is to overstate revenues for the year ended March 31, 1997, by \$6,000,000.

FREEHOLD MINERAL TAX

The Department of Energy recognizes freehold mineral tax on a cash basis. Mineral tax is calculated, invoiced, and collected once a year, based on the calendar year. Each fiscal year, the oil and gas production from freehold lands for the months of January, February, and March has not estimated and accrued and consequently the annual change in the asset has not been recognized in the consolidated statement of operations. In my view, an amount of approximately \$33,000,000 representing accruals of freehold mineral taxes at March 31, 1997 (1996 \$25,000,000) should be recognized as an asset in these financial statements. The effect of this understatement of accounts receivable is to understate freehold mineral tax revenue for the year ended March 31, 1997, by approximately \$8,000,000.

EXCLUDED DIRECT COSTS

Accommodation and certain other administration costs incurred in the operation of the Department have not been included in expenses. These costs are recorded by the departments that paid the expenses on behalf of the Department of Energy.

In my opinion, except for the effects of the matters discussed in the preceding sections, these financial statements present fairly, in all material respects, the financial position of the Department as at March 31, 1997 and 1996 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Peter Valentine
FCA
Auditor General

Edmonton, Alberta
June 13, 1997

MINISTRY OF ENERGY
CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31, 1997
(in thousands)

	1997		1996
	Budget	Actual	Actual
Revenues (Schedule 1)			
Non-renewable resource revenue	\$ 2,916,512	\$ 4,286,661	\$ 3,095,164
Freehold mineral rights taxes	84,000	116,544	100,561
Industry levies and licenses	45,161	49,805	39,587
Other	7,383	(7,294)	6,870
	3,053,056	4,445,716	3,242,182
Expenses (Schedule 2)			
Energy and utility resources	56,505	56,740	57,015
Department support services	20,109	20,808	21,096
Research and external relations	27,365	19,114	22,646
Mineral operations and marketing	17,779	15,430	17,546
Energy policy	4,548	4,529	4,223
	126,306	116,621	122,526
	2,926,750	4,329,095	3,119,656
Contributions to general revenues	2,930,524	4,318,146	3,113,609
Excess (deficiency) of revenue over expenses	<u>\$ (3,774)</u>	10,949	6,047
Refund of net assets to general revenue		(179)	-
Net assets, beginning of year		30,727	24,680
Net assets, end of year		<u>\$ 41,497</u>	<u>\$ 30,727</u>

The accompanying notes and schedules are part of these financial statements

MINISTRY OF ENERGY
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31, 1997
(thousands of dollars)

	1997	1996
Operating transactions:		
Excess of revenue over expense	\$ 10,949	\$ 6,047
Non-cash transactions:		
Amortization	8,431	6,378
Capital assets written down	17,303	1,307
Change in pension obligations	(1,538)	95
Change in provisions for future project abandonment	728	800
	35,873	14,627
Decrease (increase) in accounts receivable	99,644	(349,115)
Decrease (increase) in inventory	139,358	(187,900)
Decrease (increase) in prepaid expenses	(32)	112
Increase in payables	13,365	36,610
Increase in accrued vacation pay	439	249
Increase (decrease) in due to general revenue	(251,310)	328,149
Cash provided by (used in) operating transactions	37,337	(157,268)
Investing and financing transactions:		
Purchase of capital assets	(15,983)	(26,430)
Proceeds on disposal of capital assets	3	1,086
Increase (decrease) in gas royalty deposits	(9,748)	213,091
Change in funds held on behalf of others	1,512	716
Refund of net assets to general revenue	(179)	-
Capital assets on hand	-	(20,217)
Cash provided by (used in) investing and financing transactions	(24,395)	168,246
Net cash provided	12,942	10,978
Cash, beginning of year	41,675	30,697
Cash, end of year	\$ 54,617	\$ 41,675

The accompanying notes and schedules are part of these statements.

MINISTRY OF ENERGY
CONSOLIDATED STATEMENT OF ASSETS, LIABILITIES AND NET ASSETS
AS AT MARCH 31, 1997
(in thousands)

	1997	1996
ASSETS		
Cash and short-term investments	\$ 54,617	\$ 41,675
Net accounts receivable	255,966	355,610
Inventory held for resale	48,542	187,900
Prepaid expenses	464	432
Capital assets (Note 4)	35,821	45,575
	\$ 395,410	\$ 631,192
LIABILITIES		
Accounts payable	\$ 58,845	\$ 45,480
Accrued vacation pay	3,289	2,850
Gas royalty deposits	203,343	213,091
Accrued pension obligations	4,816	6,354
Provisions for future project abandonments (Note 6)	4,133	3,405
Due to general revenues	76,840	328,150
Funds held on behalf of others (Note 7)	2,647	1,135
	353,913	600,465
Net assets (Note 8)	41,497	30,727
	\$ 395,410	\$ 631,192

Commitments (Note 9) and Contingencies (Note 10)

The accompanying notes and schedules are part of these financial statements.

MINISTRY OF ENERGY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 1997

NOTE 1 AUTHORITY

The Minister of Energy has been designated as responsible for various Acts by the Government Organization Act and its regulations. To fulfill these responsibilities, the Minister administers the organizations listed below. The authority under which each organization operates is also listed. Together, these organizations form the Ministry of Energy.

Organization	Authority
Department of Energy	Government Organization Act
Alberta Energy and Utilities Board	Alberta Energy and Utilities Board Act
Alberta Oil Sands Technology and Research Authority	Alberta Oil Sands Technology And Research Authority Act
Alberta Petroleum Marketing Commission	Petroleum Marketing Act and the Natural Gas Marketing Act

NOTE 2 PURPOSE

The Energy Ministry maximizes the benefits to Albertans from Alberta's energy and mineral resources, and regulates energy development in a manner that protects individual, public and industry interests with respect to the resources and the environment.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

These financial statements are prepared in accordance with the following accounting policies:

(a) Reporting Entity

The reporting entity is the Ministry of Energy, which consists of the organizations identified in Note 1.

(b) Basis of Financial Reporting

REVENUES

All revenues are reported on the accrual method of accounting except for freehold mineral rights tax and rentals and fees which are reported on a cash basis.

NET CONTRIBUTION TO GENERAL REVENUES

Since revenues generated by the Department are more than the approved operating expenses budget, excess funding is returned to the General Revenues of the Province. The Net Contribution to the General Revenues is deducted from the revenues to determine funding available to the Department.

EXPENSES

Vacation pay is expensed in the year earned except for the Department of Energy which expenses vacation pay when paid.

Pension costs included in these statements comprise the cost of pension benefits earned by employees during the year and employer contributions for employees' past service.

Provision for future project abandonment is made when costs are reasonably determined.

ASSETS

Inventory consists of conventional and synthetic oil in feeder and trunk pipelines. Inventories are stated at net realizable value.

Capital assets are recorded at cost and are amortized over their estimated useful lives.

Development costs for facilities and equipment are capitalized when the technical feasibility of technology is established and when estimated future revenues exceed estimated current and future expenditures.

LIABILITIES

Liabilities include all financial claims payable by the Ministry at fiscal year end, except for the Department's accrued vacation pay, long term disability benefits and certain pension benefits, which are reflected in the financial statements of Treasury Department on behalf of all departments.

Due to General Revenues consists of cash held by Alberta Petroleum Marketing Commission plus the difference at fiscal year end between the Department's liabilities and the value of its assets. It also includes the accumulated net cash flows relating to the Department's activities.

STATEMENT OF CHANGES IN FINANCIAL POSITION

To prepare for implementation of the Government Accountability Act, the Province of Alberta started gathering financial information for the Department of Energy as at April 1, 1995 to be used for the comparative figures as at March 31, 1996. With the exception of capital assets, the comparative figures in the Statement of Changes in Financial Position have been prepared on the assumption that Departmental assets, liabilities, and due to/from general revenues were acquired or incurred during the year ended March 31, 1996. Capital assets of the Department have been reported in the Statement of Changes in Financial Position as an amount on hand April 1, 1995 and transactions incurred in the year.

As at March 31, trust funds under administration were as follows:

	1997	1996
	<i>(in thousands)</i>	
Mines and Minerals Act		
Securities Trust	\$ 3,616	\$ 3,539
Oil and Gas Conservation Trust	3	9
	<u>\$ 3,619</u>	<u>\$ 3,548</u>

NOTE 6 PROVISION FOR FUTURE PROJECT ABANDONMENTS

Under joint participating agreements, the Ministry will incur costs when projects are abandoned. Estimated Ministry share of costs:

	1997	1996
	<i>(in thousands)</i>	
Underground test facility	\$ 3,000	\$ 2,000
Other projects	1,133	1,405
	<u>\$ 4,133</u>	<u>\$ 3,405</u>

NOTE 7 FUNDS HELD ON BEHALF OF OTHERS

Deposits are collected by the Alberta Energy and Utilities Board to ensure the proper abandonment of oil and gas wells. The deposits plus annual interest are returned to the registered owner upon compliance.

NOTE 8 NET ASSETS

	1997	1996
	<i>(in thousands)</i>	
Alberta Oil Sands Technology and Research Authority	\$ 21,778	\$ 13,245
Alberta Energy and Utilities Board	19,719	17,303
Alberta Petroleum Marketing Commission	-	179
	<u>\$ 41,497</u>	<u>\$ 30,727</u>

NOTE 4 CAPITAL ASSETS

	1997			1996	
	Estimated Useful Life	Cost	Accumulated Amortization and Write downs	Net Book Value	Net Book Value
		<i>(in thousands)</i>			
Furniture and equipment	10 years	\$ 5,234	\$ 3,888	\$ 1,346	\$ 1,418
Computer equipment	4-5 years	53,280	25,030	28,250	35,349
Leasehold improvement	Term of lease	534	29	505	-
Underground test facility	5 years	17,555	12,155	5,400	8,487
Land		320	-	320	320
		<u>\$ 76,923</u>	<u>\$ 41,102</u>	<u>\$ 35,821</u>	<u>\$ 45,574</u>

NOTE 5 TRUST FUNDS UNDER ADMINISTRATION

The Department administers trust funds which are regulated funds consisting of public money over which the Legislature has no power of appropriation. Because the Province has no equity in the funds and administers them for the purpose of various trusts, they are not included in the Ministry's financial statements.

NOTE 9 COMMITMENTS

Commitments to outside organizations in respect of contracts entered into before March 31, 1997 amount to \$17,457,000. These commitments will become expenses of the Ministry when terms of the contracts are met. Payments in respect of these contracts and agreements are subject to the voting of supply by the Legislature. These amounts include obligations under long-term leases with lease payment requirements in future years of:

	(in thousands)
1997/98	\$ 4,788
1998/99	4,595
1999/2000	4,497
2000/01	3,139
2000/02	438
	<u>\$ 17,457</u>

ROYALTY PAID NATURAL GAS

The Province is committed to reduce future royalties on reproduction of royalty paid natural gas and by-products injected into underground reservoirs prior to January 1, 1994. At March 31, 1997, the commitment was estimated at \$180 million (1996 \$189 million). Under the Natural Gas Royalty Regulation, the commitment must be discharged by December 31, 1999.

ALBERTA OIL SANDS TECHNOLOGY AND RESEARCH AUTHORITY

Alberta Oil Sands Technology and Research Authority has outstanding commitments as at March 31, 1997 totalling \$10,920,000.

ALBERTA PETROLEUM MARKETING COMMISSION

The Alberta Petroleum Marketing Commission has allocated a portion of its anticipated pipeline requirements to firm transportation agreements of up to fifteen years. These agreements obligate the Commission to pay tariff charges for contracted volumes in accordance with contract rates if and when the pipelines become operational. The in-service date for these pipelines is scheduled for 1997. The aggregate estimated commitment of \$175,000,000 for the fifteen year period will be paid from future oil royalty revenue. Costs for these pipeline services are expected to be within the range of normal transportation costs.

NOTE 10 CONTINGENCIES

Set out below are details of contingencies resulting from administrative appeals and litigation, other than those reported as liabilities.

Management considers the contingencies will not result in any material adverse effect on the Ministry. Any losses arising from the settlement of contingencies will be treated as current year expenses.

(a) Natural Gas and By-Product Royalties Appeals

Industry has appealed eight assessments resulting from the Ministry's Compliance and Assurance audits. The appeals relate to cost and unit price issues in the processing of natural gas liquids. The potential cost is unknown. In the opinion of management, the likely results of these appeals cannot be determined at this time.

(b) Land Claims

The government has identified and set aside specific tracts of land to satisfy land claims by Indian Bands. The claims related to these lands are not yet resolved. In the interim, the Ministry has issued 23 petroleum and natural gas dispositions on these lands and collected bonus and rental payments on the areas under dispute. When these land claims will be resolved is unknown. In the opinion of management, any losses which may result from the eventual settlement of these land claims cannot be determined at this time.

The Ministry has issued two petroleum and natural gas licenses in an area which is being reviewed for protection as a Special Place. Designation as a Special Place will result in the companies' losing their right to develop possible petroleum and natural gas deposits. In the opinion of management, any losses which may result from the designation of this area as a Special Place cannot be determined at this time.

NOTE 11 MEASUREMENT UNCERTAINTY

Estimates are used in accruing revenues and expenses in circumstances where the actual accrued revenues and expenses are unknown at the time the financial statements are prepared. Uncertainty in the determination of the amount at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonable possible amount, as there is whenever estimates are used.

Measurement uncertainty that is material to these financial statements exists in the accrual of royalties derived from non-renewable resources. It is reasonably

possible that changes could occur in the near term which may affect the amount that should have been accrued for royalties. Near term is defined as a period of time not to exceed one year from the date of the financial statements.

NOTE 12 BUDGET

The 1997 consolidated operating budgets are presented for comparative purposes.

NOTE 13 RELATED PARTY TRANSACTIONS

The Ministry paid \$4,612,000 to various other Government of Alberta departments, agencies or funds

for supplies and/or services during the fiscal year. In addition, the Ministry paid Payment Systems Corporation (PSC), a corporation partially owned by the Province of Alberta \$73,000 for computer processing. Accommodations, legal, telecommunications, personnel, and certain financial costs were provided to the Ministry by other government organizations at no cost.

NOTE 14 APPROVAL OF FINANCIAL STATEMENTS

These consolidated financial statements have been approved by the Deputy Minister and the Chief Financial Officer of the Department.

SCHEDULE 1

MINISTRY OF ENERGY CONSOLIDATED SCHEDULE OF REVENUES FOR THE YEAR ENDED MARCH 31, 1997 (in thousands)

	1997		1996
	Budget	Actual	Actual
Non-renewable resource revenue:			
Crude Oil	\$ 965,512	\$ 1,386,288	\$ 1,057,499
Natural gas and by-products	1,092,000	1,299,394	1,003,478
Bonuses and sales of Crown leases	450,000	926,586	576,237
Synthetic crude oil and bitumen	285,000	524,885	319,042
Rentals and fees	110,000	131,539	116,453
Coal	14,000	17,969	22,455
	2,916,512	4,286,661	3,095,164
Freehold mineral rights tax	84,000	116,544	100,561
Industry levies and licences:			
Industry levies and assessments	28,160	28,426	21,123
Applications and licences	9,900	14,403	11,861
Contributions from project participants	3,501	3,501	3,501
Information services	3,600	3,475	3,102
	45,161	49,805	39,587
Other:			
Interest	1,200	1,597	3,417
Miscellaneous	6,183	8,412	4,760
Write down of capital assets	-	(17,303)	(1,307)
	7,383	(7,294)	6,870
Total revenues	\$ 3,053,056	\$ 4,445,716	\$ 3,242,182

SCHEDULE 2

MINISTRY OF ENERGY
CONSOLIDATED SCHEDULE OF EXPENSES DETAILED BY OBJECT
FOR THE YEAR ENDED MARCH 31, 1997
(in thousands)

	1997		1996
	Budget	Actual	Actual
Salaries, wages and employee benefits	\$ 60,115	\$ 58,648	\$ 65,092
Supplies and services	31,246	35,312	33,634
Other	23,940	12,132	15,238
Amortization of capital assets	7,915	8,431	6,378
Well abandonment	3,090	2,098	2,184
Total gross expenses	126,306	116,621	122,526
Dedicated revenue	(360)	(360)	(552)
Total net expenses	\$ 125,946	\$ 116,261	\$ 121,974

SCHEDULE 3

MINISTRY OF ENERGY
CONSOLIDATED SCHEDULE OF INTRA-MINISTRY TRANSACTIONS
FOR THE YEAR ENDED MARCH 31, 1997
(in thousands)

	1997		1996
	Budget	Actual	Actual
Revenues			
Alberta Energy and Utilities Board funding from the Department	\$ (12,830)	\$ (12,830)	\$ (18,488)
Alberta Oil Sands Technology and Research Authority funding from the Department	(12,200)	(13,500)	(8,450)
Profit transfer from Alberta Petroleum Marketing Commission	-	(1,452)	(5,256)
Alberta Petroleum Marketing Commission funding from the Department	(2,761)	(2,761)	(2,761)
	\$ (27,791)	\$ (30,543)	\$ (34,955)
Expenses			
Grant funding to Alberta Energy and Utilities Board	\$ (12,830)	\$ (12,830)	\$ (18,488)
Grant funding to Alberta Oil Sands Technology and Research Authority	(12,200)	(13,500)	(8,450)
Grant funding to Alberta Petroleum Marketing Commission	(2,761)	(2,761)	(2,761)
	\$ (27,791)	\$ (29,091)	\$ (29,699)

DEPARTMENT
OF ENERGY

Financial Statements
March 31, 1997

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to the Minister of Energy

I have audited the statement of assets and liabilities of the Department of Energy as at March 31, 1997 and 1996 and the statements of revenues and expenses and changes in financial position for the years then ended. These financial statements are the responsibility of the management of the Department. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

Section 14 of the Government Accountability Act requires the preparation of financial statements for the Department of Energy as at March 31, 1998. In preparing to meet this requirement, the accompanying financial statements have been prepared using the accounting policies and reporting practices that the government has established for departments, as disclosed in Note 3. With certain exceptions, the magnitude of which have caused me to provide a reservation of opinion, the basis of accounting is generally accepted accounting principles (GAAP). GAAP is the term used to describe the basis on which financial statements are normally prepared. Encompassing broad principles and conventions of general application, GAAP communicates information that is useful in making decisions and assessing performance. This objective is achieved by including all assets and liabilities, recognizing the effect of transactions and events in the period they occur and recording all costs of the Department's service delivery activities.

The following accounting policies employed in both 1997 and 1996 are exceptions from generally accepted accounting principles:

PENSION OBLIGATIONS

Obligations to pension plans for current and former employees of the Department have not been recognized as a liability in the accompanying statement of assets and liabilities and consequently the annual change in the liability has not been recognized in the statement of revenues and expenses. Determining the amount of the liability is dependent on taking a position, which I have not yet done, on how a share of any Provincial contribution to the elimination of the unfunded liability should be allocated to the Department. However, in my view, an amount of approximately \$4,721,000 due to pension plans at March 31, 1997 (1996 \$6,532,000), in the Department's capacity as employer, and which is reflected in the financial statements of Treasury Department, should be recognized as a liability in these financial statements. The effect of this understatement of liabilities is to overstate expenses for the year ended March 31, 1997, by \$1,811,000.

EMPLOYEE ENTITLEMENTS AND BENEFITS

Accrued employee vacation entitlements and long-term disability benefits have not been recognized as a liability in the accompanying statement of assets and liabilities and consequently the annual change in the liability has not been recognized in the statement of revenues and expenses. In my view, an amount of approximately \$5,019,000 representing accrued

entitlements and benefits at March 31, 1997 (1996 \$5,123,000), and which is reflected in the financial statements of Treasury Department, should be recognized as a liability in these financial statements. The effect of this understatement of liabilities is to overstate expenses for the year ended March 31, 1997, by \$104,000.

UNEARNED REVENUE RELATED TO ANNUAL RENTALS

The Department of Energy collects annual rentals for the surface and subsurface dispositions administered by the Department. These rental fees are paid in advance and cover one year's rental; the year begins on each disposition's anniversary date. Rental fees are recognized as revenue on the anniversary date. As anniversary dates are distributed throughout the year, at March 31 of each fiscal year a portion of the rentals recorded in revenue will relate to the following fiscal period. This portion of the rentals has not been recorded as unearned revenue and consequently the annual change in the liability has not been recognized in the statement of revenues and expenses. In my view, an amount of approximately \$65,000,000 representing unearned revenues at March 31, 1997 (1996 \$59,000,000) should be recognized as a liability in these financial statements. The effect of this understatement of unearned revenues is to overstate revenues for the year ended March 31, 1997, by \$6,000,000.

FREEHOLD MINERAL TAX

The Department of Energy recognizes freehold mineral tax on a cash basis. Mineral tax is calculated, invoiced, and collected once a year, based on the calendar year. Each fiscal year, the oil and gas production from freehold lands for the months of January, February, and March has not been accrued and consequently the annual change in the asset has not been recognized in the statement of revenues and expenses. In my view, an amount of approximately \$33,000,000 representing accruals of freehold mineral taxes at March 31, 1997 (1996 \$25,000,000) should be recognized as an asset in these financial statements. The effect of this understatement of accounts receivable is to understate freehold mineral tax revenue for the year ended March 31, 1997, by approximately \$8,000,000.

EXCLUDED DIRECT COSTS

Accommodation and certain other administration costs incurred in the operation of the Department have not been included in expenses. These costs are recorded by the departments that paid the expenses on behalf of the Department of Energy.

In my opinion, except for the effects of the matters discussed in the preceding sections, these financial statements present fairly, in all material respects, the financial position of the Department as at March 31, 1997 and 1996 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Peter Valentine

FCA
Auditor General

Edmonton, Alberta
June 13, 1997

DEPARTMENT OF ENERGY
STATEMENT OF REVENUES AND EXPENSES
FOR THE YEAR ENDED MARCH 31, 1997
(in thousands)

	1997		1996
	Budget	Actual	Actual
Revenues (Schedules 1 and 2)			
Non-renewable resource revenue	\$ 2,641,000	\$ 4,274,018	\$ 3,077,641
Taxes	84,000	116,544	100,561
Net profit from commercial operations	4,056	1,452	5,256
Other revenues	740	(2,834)	1,344
	2,729,796	4,389,180	3,184,802
Net contribution to General Revenues	2,658,258	4,317,642	3,108,638
Funding available (Schedule 3)	71,538	71,538	76,164
Expenses (Schedules 2 and 4)			
Departmental support services	20,109	20,808	21,096
Research and external relations	16,518	16,746	16,288
Mineral operations	17,533	16,121	15,826
Energy and utilities regulation	12,830	12,830	18,488
Energy policy	4,548	4,529	4,223
	71,538	71,034	75,921
Funding surplus	-	504	243
Funding returned to General Revenues (Note 4)	-	504	243
	\$ -	\$ -	\$ -

The accompanying notes and schedules are part of these financial statements.

DEPARTMENT OF ENERGY
STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31, 1997
(thousands of dollars)

	1997		1996
	Budget	Actual	Actual
Operating transactions:			
Funding surplus	\$ -	\$ 504	\$ 243
Add non-cash items included in funding surplus:			
Amortization	4,798	5,381	3,240
Write down of capital assets	-	7,081	-
Returned to general revenues	-	(504)	(243)
	4,798	12,462	3,240
Decrease (increase) in accounts receivable	-	99,162	(349,263)
Decrease (increase) in inventory	-	139,358	(187,900)
Increase in accounts payable	-	19,733	36,397
Cash provided (used) for operating transactions	4,798	270,715	(497,526)
Financing transactions:			
Increase (decrease) in gas royalty deposits	-	(9,748)	213,091
Investing transactions:			
Purchase of capital assets (Schedule 5)	(11,079)	(8,324)	(13,967)
Capital assets on hand	-	-	(20,217)
Cash used for investing transactions	(11,079)	(8,324)	(34,184)
Net cash provided (used)	<u><u>\$(6,281)</u></u>	252,643	(318,619)
Due to general revenues, beginning of year		(318,619)	-
Due to general revenues, end of year		<u><u>\$(65,976)</u></u>	<u><u>\$(318,619)</u></u>

The accompanying notes and schedules are part of these statements.

DEPARTMENT OF ENERGY
STATEMENT OF ASSETS AND LIABILITIES
AS AT MARCH 31, 1997
(in thousands)

	1997	1996
ASSETS		
Accounts receivable (Note 5)	\$ 250,101	\$ 349,263
Inventory	48 542	187,900
Capital assets (Note 6)	26,806	30,944
	\$ 325,449	\$ 568,107
LIABILITIES		
Accounts payable and accrued liabilities	\$ 56,130	\$ 36,397
Gas royalty deposits	203,343	213,091
Due to general revenues	65,976	318,619
	\$ 325,449	\$ 568,107

Commitments (Note 8) and Contingencies (Note 9)

The accompanying notes and schedules are part of these financial statements.

DEPARTMENT OF ENERGY
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 1997

NOTE 1 AUTHORITY

The Department of Energy operates under the authority of the Government Organization Act, Statutes of Alberta.

NOTE 2 PURPOSE

The Department's Mission is to maximize the sustained contribution of energy and mineral industries to the Alberta economy and to government revenue by enhancing the value of our resources for the benefit of Albertans.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

These financial statements are prepared in accordance with the following accounting policies:

(a) Reporting Entity

The reporting entity is the Department of Energy, which is part of the Ministry of Energy and for which the Minister of Energy is accountable. Other entities reporting to the Minister include the Alberta Petroleum Marketing Commission, the Alberta Energy and Utility Board and the Alberta Oil Sands Technology and Research Authority. The activities of these organizations are not included in these financial statements.

Since significant financial transactions of the Ministry are reported outside the Departmental financial statements, the Ministry financial statements provide a more comprehensive accounting of the financial position and results of the Ministry's operations. The Ministry Annual Report provides a more complete picture of the responsibilities for which the Minister is accountable.

All departments of the Government of Alberta operate within the General Revenue Fund (the Fund). The Fund is administered by the Provincial Treasurer. All revenues collected by the departments are deposited into the Fund and all disbursements made by the departments are paid from the Fund. The results of all departments' operations and their financial positions are combined to determine the financial position of the Fund.

(b) Basis of Financial Reporting

REVENUES

Rental and fees revenue and Freehold mineral rights tax are reported on a cash basis. All other revenues are reported on the accrual method of accounting.

NET BUDGETING AND DEDICATED REVENUE

Net budgeting provides an alternative basis for authorizing spending. Each net budgeted initiative must be approved by Treasury Board. Net budgeted revenue is termed "dedicated revenue". For programs providing services where the level of expense and revenue is related to the program's volume of activity, the annual budget is based on the estimated net amount of expense for the program. If demand for the program grows and provides increased revenue, the department has the flexibility to respond with no increase in net cost to the government. If demand for the program diminishes and revenues decline, the department must reduce expenses accordingly.

NET CONTRIBUTION TO GENERAL REVENUES

Since revenues generated by the Department are more than the approved operating expenses budget, excess funding is returned to the General Revenues of the Province. The Net Contribution to General Revenues is deducted from the revenues to determine funding available to the Department.

EXPENSES

Expenses represent the costs of resources consumed during the year on the Department's operations. Expenses include amortization of capital assets. Expenses do not include accrued vacation pay, long-

term disability benefits and certain pension benefits, which are reflected in the financial statements of Treasury Department on behalf of all departments.

Salaries, wages and employee benefits include pension costs, comprising both employer contributions for current service of employees during the year and additional employer contributions for employees' service related to prior years.

Certain expenses, primarily for office space, legal advice, and banking services incurred on behalf of the Department by other Ministries, are not reflected in these statements.

ASSETS

Financial assets of the Department are limited to financial claims, such as advances to and receivables from other organizations, employees and other individuals as well as inventories held for resale.

Inventory consists of conventional and synthetic oil in feeder and trunk pipelines. Inventory is stated at net realizable value.

Capital assets of the Department are recorded at historical cost and amortized on a straight-line basis over the estimated useful lives of the assets. Capital assets are restricted to those acquired for cash or exchanged for other assets. Assets acquired by right, such as mineral resources, are not included. In addition, assets paid for by others are excluded.

LIABILITIES

Liabilities include all financial claims payable to the Department at fiscal year end, except accrued vacation pay, long-term disability benefits and certain pension benefits, which are reflected in the financial statements of Treasury Department on behalf of all departments.

Due to General Revenues is the difference at fiscal year end between the value of assets held by the Department and its liabilities. It also represents the accumulated net cash flows relating to the Department's activities.

STATEMENT OF CHANGES IN FINANCIAL POSITION

To prepare for implementation of the Government Accountability Act, the Province of Alberta started gathering financial information as at April 1, 1995 to be used for the March 31, 1996 financial statements. With the exception of capital assets, the comparative figures in the Statement of Changes in Financial Position have been prepared on the assumption that assets, liabilities, and due to/from general revenues were acquired or incurred during

the year ended March 31, 1996. Capital assets have been reported in the Statement of Changes in Financial Position as the amount on hand April 1, 1995 and transactions incurred in the year.

NOTE 4 FUNDING RETURNED TO GENERAL REVENUES

The amount returned to general revenues represents the difference between the voted operating expenses and actual expenses made under that voted authority. Under existing legislation, this amount may not be retained by the Department.

NOTE 5 ACCOUNTS RECEIVABLE

	1997	1996
	<i>(in thousands)</i>	
Accounts receivable, trade	\$ 250,054	\$ 349,192
Loans and advances	47	71
Total	\$ 250,101	\$ 349,263

Accounts receivable are secured by a claim against the mineral leases.

NOTE 6 CAPITAL ASSETS

		1997		1996	
	Estimated Useful Life	Cost	Accumulated Amortization	Net Book Value	Net Book Value
		<i>(in thousands)</i>			
Equipment	10 years	\$ 2,931	\$ 1,836	\$ 1,095	\$ 932
Computer hardware and software	5 years	41,638	15,927	25,711	30,012
		\$ 44,569	\$ 17,763	\$ 26,806	\$ 30,944

NOTE 7 TRUST FUNDS UNDER ADMINISTRATION

The Department administers trust funds which are regulated funds consisting of public money over which the Legislature has no power of appropriation. Because the Province has no equity in the funds and administers them for the purpose of various trusts, they are not included in the Department's financial statements.

As at March 31, 1997, trust funds under administration were as follows:

	1997	1996
	<i>(in thousands)</i>	
Mines and Minerals Act Securities Trust	\$ 3,616	\$ 3,538
Oil and Gas Conservation Trust	3	9
	\$ 3,619	\$ 3,547

NOTE 8 COMMITMENTS

Commitments to outside organizations in respect of contracts entered into before March 31, 1997 amount to \$236,000. These commitments will become expenses of the Department when terms of the contracts are met. Payments in respect of these contracts and agreements are subject to the voting of supply by the Legislature. These amounts include obligations under long term leases with lease payment requirements in future years of:

	<i>(in thousands)</i>
1997/98	\$ 132
1998/99	26
1999/2000	26
2000/01	26
2001/02	26
	\$ 236

ROYALTY PAID NATURAL GAS

The Province is committed to reduce royalties on reproduction of royalty paid natural gas and by-products injected into underground reservoirs prior to January 1, 1994. At March 31, 1997, the commitment was estimated at \$180 million (1996 \$189 million). Under the Natural Gas Royalty Regulation, the commitment has to be discharged by December 31, 1999.

NOTE 9 CONTINGENCIES

Set out below are details of contingencies resulting from administrative appeals and litigation, other than those reported as liabilities.

Management considers the contingencies will not result in any material adverse effect on the department. Any losses arising from the settlement of contingencies will be treated as current year expenses.

(a) Natural Gas and By-Product Royalties Appeals

Industry has appealed eight assessments resulting from the Department's Compliance and Assurance audits. The appeals relate to cost and unit price issues in the processing of natural gas liquids. The potential cost is unknown. In the opinion of management, the likely results of these appeals cannot be determined at this time.

(b) Land Claims

The government has identified and set aside specific tracts of land to satisfy land claims by Indian Bands. The claims related to these lands are not yet resolved. In the interim, the Department has issued 23 petroleum and natural gas dispositions on these lands and collected bonus and rental payments on the areas under dispute. When these land claims will be resolved is unknown. In the opinion of management, any losses which may result from the eventual settlement of these land claims cannot be determined at this time.

The Department has issued two petroleum and natural gas licenses in an area which is being reviewed for protection as a Special Place. Designation as a Special Place will result in the companies' losing their right to develop possible petroleum and natural gas deposits. In the opinion of management, any losses which may result from the designation of this area as a Special Place cannot be determined at this time.

NOTE 10 BUDGET

The budget figures were derived from the Government Estimates approved on April 1, 1996.

NOTE 11 RELATED PARTY TRANSACTIONS

The Department paid \$4,612,000 to various other Government of Alberta departments, agencies or funds for supplies and/or services during the fiscal year. In addition, the Department paid Payment Systems Corporation (PSC), a corporation partially owned by the Province of Alberta \$73,000 (1996 \$81,000) for computer processing. Accommodations, legal, telecommunications, personnel, and certain financial costs were provided to the Department by other government organizations at no cost. At March 31, 1997, a receivable of \$85,138,000 was due from the Alberta Petroleum Marketing Commission, which is part of the Ministry of Energy.

The Department and its employees paid certain taxes and fees set by regulation for permits, licences, and other rights. These amounts were incurred in the normal course of business and reflect charges applicable to all users.

NOTE 12 MEASUREMENT UNCERTAINTY

Estimates are used in accruing revenues and expenses in circumstances where the actual accrued revenues and expenses are unknown at the time the financial statements are prepared. Uncertainty in the determination of the amounts at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonable possible amount, as there is wherever estimates are used.

Measurement uncertainty that is material to these financial statements exists in the accrual of royalties derived from non-renewable resources. It is reasonably possible that changes could occur in the near term which may affect the amount that should have been accrued for royalties. Near term is defined as a period of time not to exceed one year from the date of the financial statements.

NOTE 13 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Deputy Minister and the Chief Financial Officer of the Department.

SCHEDULE 1

DEPARTMENT OF ENERGY
SCHEDULE OF REVENUES
FOR THE YEAR ENDED MARCH 31, 1997
(in thousands)

	1997		1996
	Budget	Actual	Actual
Non-renewable resource revenue			
Crude oil royalty	\$ 958,000	\$ 1,386,288	\$ 1,047,413
Natural gas and by-products royalty	1,092,000	1,299,394	1,003,478
Bonuses and sales of Crown leases	450,000	926,586	576,237
Synthetic crude oil and bitumen royalty	282,000	512,242	311,605
Rental and fees:			
Petroleum and natural gas	99,000	119,638	106,289
Oil Sands	7,000	7,582	7,256
Coal	3,000	2,154	1,953
Other	1,000	2,149	945
Coal royalty	14,000	17,969	22,455
Other	-	16	10
Reduction to 5 year average	(265,000)	-	-
	2,641,000	4,274,018	3,077,641
Taxes			
Freehold mineral rights tax	84,000	116,544	100,561
Net profit from commercial operations			
Alberta Petroleum Marketing Commission	4,056	1,452	5,256
Other revenues			
Refunds of expenditure	-	182	354
Miscellaneous	740	4,065	990
Write down of capital assets	-	(7,081)	-
	740	(2,834)	1,344
Total revenue	\$ 2,729,796	\$ 4,389,180	\$ 3,184,802

SCHEDULE 2

**DEPARTMENT OF ENERGY
SCHEDULE OF NET BUDGETED INITIATIVES
FOR THE YEAR ENDED MARCH 31, 1997
(in thousands)**

	1997		1996
	Budget	Actual	Actual
Bonuses and sales of Crown leases			
Dedicated revenue	\$ (360)	\$ (360)	\$ (344)
Expenses	360	360	-
Net expense	\$ -	\$ -	\$ (344)
Alberta Geological Survey			
Dedicated revenue	-	-	\$ (208)
Expenses	-	-	200
Net expense	\$ -	\$ -	\$ (8)

Net budgeting provides an alternative basis for authorizing spending. Each net budgeted initiative must be approved by Treasury Board. Net budgeted revenue is termed "dedicated revenue". For programs providing services where the user-pay principle is appropriate and where level of expense and revenue is related to the program's volume of activity, the annual budget is set at the estimated net amount of expense for the program. If demand for the program grows and provides increased revenue, the department has the flexibility to respond with no increase in net cost to the government. If demand for the program diminishes and revenues decline, the department must reduce expenses accordingly.

The dedicated revenue for Bonuses and sales of Crown Leases offsets the extra expenses incurred when selling more than 5,200 leases.

The dedicated revenue for Alberta Geological Survey from the sale of reports, data and services offsets the extra expenses incurred in accumulating geological information.

The dedicated revenue and related expenses are included in the Statement of Revenues and Expense on a gross basis.

SCHEDULE 3

**DEPARTMENT OF ENERGY
SCHEDULE OF FUNDING AVAILABLE
FOR THE YEAR ENDED MARCH 31, 1997
(in thousands)**

	1997 Authorized			1996 Authorized
	Voted Operations	Capital Investment	Total	Total
Departmental support services	\$ 20,109	\$ 2,689	\$ 22,798	\$ 20,888
Mineral operations	17,533	8,390	25,923	21,000
Research and external relations	16,518	-	16,518	17,665
Energy and utilities regulation	12,830	-	12,830	21,456
Energy Policy	4,548	-	4,548	6,382
	\$ 71,538	\$11,079	\$82,617	\$87,391

SCHEDULE 4

**DEPARTMENT OF ENERGY
SCHEDULE OF EXPENSE DETAILED BY OBJECT
FOR THE YEAR ENDED MARCH 31, 1997
(in thousands)**

	1997		1996
	Budget	Actual	Actual
Salaries, wages and employee benefits (Schedule 6)	\$ 25,624	\$ 22,759	\$ 26,352
Supplies and services	14,101	15,678	14,883
Grants	26,970	27,170	31,391
Other	45	46	55
Amortization of capital assets	4,798	5,381	3,240
Total gross expense	71,538	71,034	75,921
Dedicated revenue	(360)	(360)	(552)
Total net expense	\$ 71,178	\$ 70,674	\$ 75,369

SCHEDULE 5

**DEPARTMENT OF ENERGY
SCHEDULE OF PURCHASE OF CAPITAL ASSETS BY TYPE
FOR THE YEAR ENDED MARCH 31, 1997
(in thousands)**

	1997		1996
	Budget	Actual	Actual
Equipment	\$ 630	\$ 542	\$ 517
Computer hardware and software	10,449	7,782	13,450
	\$ 11,079	\$ 8,324	\$ 13,967

DEPARTMENT OF ENERGY
SCHEDULE OF SALARIES AND BENEFITS DISCLOSURE
FOR THE YEAR ENDED MARCH 31, 1997

	1997 ⁽¹⁾				1996	
	Number of Individuals ⁽²⁾	Salary ⁽³⁾	Benefits and Allowances ⁽⁴⁾	Total	Number of Individuals ⁽²⁾	Total
Senior official						
Deputy Minister ⁽⁵⁾	1	\$ 103,002	\$ 14,842	\$ 117,844	1	\$ 127,188
Executives - Assistant Deputy Ministers						
Corporate Services	1	90,274	14,348	104,622	1	114,899
Policy	1	93,894	16,352	110,246	1	103,845
Research & External Relations	1	88,358	16,656	105,014	1	109,385
Mineral Operations	1	90,274	17,824	108,098	1	103,472
Other managers						
(average 1997 \$ 77,797						
1996 \$ 81,561)	99	6,490,391	1,211,500	7,701,891	116	9,461,058
Other salaried staff						
(average 1997 \$ 39,710						
1996 \$ 43,068)	408	13,958,567	2,243,279	16,201,846	428	18,432,997
Non-salaried staff ⁽⁶⁾		1,314,396	96,118	1,410,514		1,491,253
Less: Salaries and benefits capitalized ⁽⁷⁾		(1,971,674)	(301,451)	(2,273,125)		(2,308,601)
Salary recoveries ⁽⁸⁾		(827,951)	-	(827,951)		(1,282,838)
Department total		\$ 19,429,531	\$ 3,329,468	\$ 22,758,999		\$ 26,352,658

(1) This schedule includes the Department of Energy, Alberta Oil Sands Technology Research Authority, and Alberta Petroleum Marketing Commission.

(2) Number of individuals is the weighted average during the year.

(3) Salary includes regular base pay, overtime, and any other direct cash remuneration.

(4) Benefits and Allowances include the government's share of all employee benefits and contributions or payments made on behalf of employees including pension, vacation payouts, WCB premiums, health care, dental coverage, group life insurance, short and long-term disability plans, payments made in lieu of employer supplied automobile, professional memberships, and tuition fees.

(5) Automobile provided, no amount included in benefits and allowances figure.

(6) Includes all non-salaried staff paid on an hourly basis except STEP and ESP.

(7) Salaries and benefits were expended in the development of capital systems.

(8) The salary recoveries reflect the amount recovered from Environmental Protection and the Alberta Oil Sands Technology and Research Authority.

ALBERTA ENERGY AND UTILITIES BOARD

Financial Statements March 31, 1997

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Auditor's Report



to the Members of the Alberta Energy and Utilities Board

I have audited the balance sheet of the Alberta Energy and Utilities Board as at March 31, 1997 and the statements of revenue, expenditure and surplus, and changes in financial position for the year then ended. These financial statements are the responsibility of the Board's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Board as at March 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Peter Valentine

FCA
Auditor General

Edmonton, Alberta
May 2, 1997

ALBERTA ENERGY AND UTILITIES BOARD
BALANCE SHEET
AS AT MARCH 31, 1997
(thousands of dollars)

	1997	1996
	(Schedule 1)	
ASSETS		
Current:		
Cash (Note 3)	\$ 26,123	\$ 20,968
Accounts receivable	1,702	1,508
Prepaid expenses	464	432
	28,289	22,908
Capital assets (Note 4)	3,615	5,965
	\$ 31,904	\$ 28,873
LIABILITIES AND SURPLUS		
Current:		
Accounts payable	\$ 1,433	\$ 2,009
Accrued vacation	3,289	2,733
	4,722	4,742
Funds held on behalf of others (Note 5)	2,647	1,135
Pension obligations (Note 6)	4,816	5,693
	12,185	11,570
Surplus	19,719	17,303
	\$ 31,904	\$ 28,873

The accompanying notes and schedules are an integral part of these financial statements.

ALBERTA ENERGY AND UTILITIES BOARD
STATEMENT OF REVENUE, EXPENDITURE AND SURPLUS
FOR THE YEAR ENDED MARCH 31, 1997
(thousands of dollars)

	1997		1996
	Actual (Schedule 2)	Budget	Actual (Schedule 2)
Revenue:			
Industry levies and assessments	\$ 28,426	\$ 28,160	\$ 21,123
Applications and licences	14,403	9,900	11,861
Provincial contributions	12,830	12,830	18,488
Information and services	3,475	3,600	3,102
Interest	1,597	1,200	2,039
Miscellaneous	863	60	872
	61,594	55,750	57,485
Expenditure:			
Salaries and benefits (Note 7)	35,889	34,491	36,478
Building rental and maintenance	5,584	5,800	5,875
Capital assets expensed (Note 4)	2,438	-	1,307
Contract services	2,360	2,378	2,250
Computer services	2,226	2,607	2,548
Vehicle and equipment operating costs	2,197	1,495	1,554
Minor capital acquisitions	2,099	1,906	1,756
Well abandonment	2,098	3,090	2,184
Supplies	1,705	1,633	1,777
Travel and subsistence	1,025	1,326	961
Amortization	960	1,300	1,074
Miscellaneous	597	479	558
	59,178	56,505	58,322
Excess (deficiency) of revenue over expenditure	2,416	(755)	(837)
Surplus at beginning of year	17,303	17,303	18,140
Surplus at end of year	\$ 19,719	\$ 16,548	\$ 17,303

ALBERTA ENERGY AND UTILITIES BOARD
STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31, 1997
(thousands of dollars)

	1997	1996
Operating activities:		
Surplus (deficit) for the year	\$ 2,416	\$ (837)
Non-cash transactions:		
Amortization	960	1,074
Gain on disposal of capital assets	(3)	(36)
Capital assets expensed (Note 4)	2,438	1,307
Change in pension obligations (Note 6)	(877)	89
	4,934	1,597
Changes in non-cash working capital	(246)	(207)
	4,688	1,390
Investing and financing activities:		
Investment in capital assets	(1,048)	(2,179)
Proceeds on disposal of capital assets	3	1,086
Change in funds held on behalf of others	1,512	716
	467	(377)
Increase in cash during the year	5,155	1,013
Cash at beginning of year	20,968	19,955
Cash at end of year	\$ 26,123	\$ 20,968

ALBERTA ENERGY AND UTILITIES BOARD
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 1997

NOTE 1 AUTHORITY AND PURPOSE

The Alberta Energy and Utilities Board (the "Board") operates under the authority of the Alberta Energy and Utilities Board Act with the mandate to ensure that development of Alberta's energy resources takes place in a responsible manner in the public interest and that Albertan's receive safe and efficient utility service at rates that are fair and reasonable.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with generally accepted accounting principles, and include the following significant policies:

(a) Fund Accounting

The accounts of the Board are maintained in accordance with the principles of fund accounting in order to recognize the intended purpose of available resources. These funds are classified as follows:

Energy Resources Fund

This fund accounts for the Board's operating activities in relation to regulating the resources and utility industries.

Well Abandonment Fund

This fund accounts for the oil and gas industry funded initiative to ensure the safe and orderly abandonment of wells which have no registered owner.

(b) Capital Assets

All land; developed or purchased computer software with an original value greater than \$100,000 and an economic life greater than one year; and any other asset with an original value greater than \$15,000 and an economic life greater than one year are capitalized. The original value reflects the original cost for purchased assets, and fair value for donated assets.

Amortization is calculated using the straight-line method over the following estimated useful lives:

Computer software	5 years
Computer hardware	5 years
Furniture and equipment	10 years
Leasehold improvements	Lease term

The useful lives have been estimated by management and will inevitably differ from actual, perhaps significantly, resulting in amortization expense not matching consumption over the asset's life.

(c) Accrued Vacation

Vacation is expensed in the year earned. A liability is accrued representing any future obligation which will be taken in kind, or paid out upon termination.

(d) Pension Obligations

Pension expense is included in the Statement of Revenue, Expenditure and Surplus within salaries and benefits. Pension expense includes the cost of current service, interest on unfunded liabilities, plus gains or losses resulting from experience adjustments, changes in assumptions, and past service. The gains and losses are amortized on a straight-line basis over the expected average remaining service life of the related employee group unless there is reasonable assurance regarding measurement and realization in which case they are recognized immediately.

The cumulative differences between pension expense and funding contributions is shown on the balance sheet as pension obligations.

NOTE 3 CASH

Cash consists of deposits in the Consolidated Cash Investment Trust Fund (CCITF) of Alberta, and deposits held by the Royal Bank of Canada.

Interest is earned on the Board's daily CCITF balance based upon a pro-rata allocation of total fund earnings. The Royal Bank deposits are funds held on behalf of others, and interest earned is accrued to the benefit of the depositor.

NOTE 4 CAPITAL ASSETS

	1997		1996	
	Cost	Accumulated Amortization	Net Asset Value	Net Asset Value
	<i>(thousands of dollars)</i>			
Computer software	\$ 9,416	\$ 8,144	\$ 1,272	\$ 1,340
Furniture and equipment	2,303	2,052	251	308
Computer hardware	1,395	959	436	416
Software under development	831	-	831	3,581
Leasehold improvements	534	29	505	-
Land	320	-	320	320
	\$ 14,799	\$ 11,184	\$ 3,615	\$ 5,965

Effective March 31, 1997 the Board expensed a software under development project with a prior cumulative value of \$2,438,000. The project was deemed to provide no future benefit based upon technological and conceptual design changes.

Effective April 1, 1995 the Board expensed all existing assets with an original value less than \$15,000 thus incurring a \$1,307,000 charge against income.

NOTE 5 FUNDS HELD ON BEHALF OF OTHERS

The Board collects cash deposits to ensure the proper abandonment of oil and gas wells. The deposits plus earned interest are returned to the registered owner upon compliance.

NOTE 6 PENSION OBLIGATIONS

The Board participates with other public sector employers in the Public Service Pension Plan and the Management Employees Pension Plan. To compensate senior staff who do not participate in the Management Employees Pension Plan the Board established a defined benefit Senior Employees Pension Plan effective March 17, 1997. This new plan replaces the unvested portion of the defined contribution Management Retiring Allowance Plan. Also, effective March 17, 1997 the Board established a non-contributory benefit plan that provides for supplemental payments to the extent that statutory guidelines and plan amendments limit benefits under the Senior Employees Pension Plan. These plans provide pensions for the Board's employees based on years of service and average earnings at retirement.

The total unfunded pension obligations for each plan as at March 31, 1997 was an extrapolation of actuarial

valuations as at December 31, 1995 for the Public Service Pension Plan, as at December 31, 1994 for the Management Employees Pension Plan and as at March 17, 1997 for the Senior Employees Pension Plan and supplementary benefit plan. The 1996 comparative figures were extrapolations of actuarial valuations as at December 31, 1993 for the Public Service Pension Plan, and as at December 31, 1994 for the Management Employees Pension Plan.

The actuarial valuations were determined using the projected benefit method prorated on service. Assumptions used in the valuations are based on best estimates of future events. Each Plan's future experience will inevitably vary, perhaps significantly, from the assumptions. Any difference between the actuarial assumptions and future experience will emerge as gains or losses in future valuations.

The Public Sector Pension Plans Act specifies the basis to determine the amount of the total unfunded obligation for the Public Service Pension Plan and the Management Employees Pension Plan which will be funded by employers. The Board's portion of those employers' obligations was based on the Board's percentage of the total pensionable payroll of all employers.

Assumptions used in computing the projected benefit obligation for the Senior Employees Pension Plan include:

Investment return	7.5% per annum
Inflation	3.5% per annum
Salary increase rate	75% of inflation, plus merit and promotion
Cost of living increase	60% of inflation

The status of the Board's obligations is as follows:

	1997	1996
	<i>(thousands of dollars)</i>	
Senior Employees Pension Plan	\$ 8,063	\$ -
Public Service Pension Plan	1,809	2,886
Management Employees Pension Plan	672	574
Management Retiring Allowance Plan:		
Vested	598	675
Unvested	-	1,558
Supplementary benefit plan	1,146	-
Total pension obligation	12,288	5,693
Less unamortized	7,472	-
Recognized pension obligation	\$ 4,816	\$ 5,693

NOTE 7 SALARIES AND BENEFITS

	1997				1996	
	Full-time Equivalents	Salary ^(a)	Benefits and Allowances ^(b)	Total	Full-time Equivalents	Total
Chair	1.00	\$ 110,524	\$ 23,307	\$ 133,831	1.00	\$ 123,822
Board Member 1	1.00	92,655	26,041	118,696	1.00	121,703
Board Member 2 ^(c)	1.00	92,655	25,646	118,301	1.00	123,655
Board Member 3	1.00	83,063	26,936	109,999	0.83	99,426
Board Member 4 ^(c)	1.00	83,018	19,695	102,713	1.00	104,389
Board Member 5 ^(c)	1.00	90,145	9,964	100,109	1.00	112,615
Board Member 6	1.00	80,709	14,881	95,590	1.00	101,685
Board Member 7 ^(c)	1.00	78,099	14,307	92,406	1.00	92,601
Board Member 8	1.00	77,246	14,442	91,688	1.00	89,846
Board Member 9 ^(d)	-	-	-	-	0.42	52,303
Board Member 10 ^{(c) (d)}	-	-	-	-	0.25	36,587
Board Member 11 ^{(c) (d)}	-	-	-	-	0.17	19,386
Managers (average salary and benefits: 1997 \$95,839 1996 \$99,201)	45.03	3,439,594	876,050	4,315,644	43.14	4,279,511
Other full-time staff (average salary and benefits: 1997 \$52,373 1996 \$57,248)	554.63	24,343,946	4,703,754	29,047,700	517.82	29,644,298
Part-time and casual staff	70.36	1,682,006	202,602	1,884,608	63.88	1,742,732
Other costs ^(e)	-	-	(305,058)	(305,058)		400,208
	<u>679.02</u>	<u>\$ 30,253,659</u>	<u>\$ 5,652,567</u>	<u>35,906,227</u>	<u>634.51</u>	<u>37,144,767</u>
Severance and termination				255,621		214,296
Capitalization of salaries and benefits related to computer software development				(273,205)		(880,937)
				<u>\$ 35,888,643</u>		<u>\$ 36,478,126</u>

(a) Salary includes regular base pay, overtime, lump sum payments, honoraria and other direct cash remuneration. During fiscal 1996, staff were compensated for prior years government equivalent salary adjustments with a lump sum payment and current salary adjustment totalling \$3,023,000.

(b) Benefits and allowances include the Board's share of all employee benefits and contributions or payments made on behalf of employees including pension plan premiums, C.P.P., E.I., memberships, tuitions, personal computer purchase reimbursements, vacation paid, and flexible health benefits. Automobiles were provided to some Board members and field staff, but no amount is included in these figures.

(c) Board members that have opted out of the Management Employees Pension Plan; benefit incremented in lieu of employer contributions.

(d) Board members that have retired or terminated employment during the reporting period.

(e) Includes Workers' Compensation Board premiums and changes in accrued vacation and pension obligations.

NOTE 8 LEASE COMMITMENTS

The Board leases office premises and computer equipment with lease terms ranging up to four years. The Board also leases a research facility with a remaining lease term of ninety years.

The future minimum lease payments for the five succeeding fiscal years are as follows:

	<i>(thousands of dollars)</i>
1998	\$ 4,656
1999	\$ 4,569
2000	\$ 4,471
2001	\$ 3,113
2002	\$ 412

NOTE 9 BUDGET

The 1997 operating budget is presented for comparative purposes. The Energy Resources Fund budget was approved by the Board, and the Well Abandonment Fund budget was approved by the Fund's Advisory Committee and the Board.

NOTE 10 COMPARATIVE FIGURES

The 1996 figures have been reclassified where necessary to conform to 1997 presentation.

The 1996 fund accounting classifications have been modified to support Board restructuring. The previously reported Public Utilities Fund and EUB Reserve Fund have been combined with the Energy Resources Fund in the 1997 presentation.

Effective April 1, 1996 the Board assumed responsibility for the Department of Energy's geological surveying group. The comparative prior year figures have not been restated to reflect the operating cost of this new group.

NOTE 11 APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the Chair and the Chief Operating Officer.

ALBERTA ENERGY AND UTILITIES BOARD
SCHEDULE OF ASSETS, LIABILITIES AND SURPLUS BY FUND
AS AT MARCH 31, 1997
(thousands of dollars)

	Energy Resources		Well Abandonment		Total	
	1997	1996	1997	1996	1997	1996
Assets:						
Current						
Cash (Note 3)	\$ 20,754	\$ 17,215	\$ 5,369	\$ 3,753	\$ 26,123	\$ 20,968
Accounts receivable	1,618	1,508	84	-	1,702	1,508
Prepaid expenses	464	432	-	-	464	432
	22,836	19,155	5,453	3,753	28,289	22,908
Capital assets (Note 4)	3,615	5,965	-	-	3,615	5,965
	\$ 26,451	\$ 25,120	\$ 5,453	\$ 3,753	\$ 31,904	\$ 28,873
Liabilities and surplus:						
Current						
Accounts payable	\$ 1,431	\$ 1,758	\$ 2	\$ 251	\$ 1,433	\$ 2,009
Accrued vacation	3,289	2,733	-	-	3,289	2,733
	4,720	4,491	2	251	4,722	4,742
Funds held on behalf of others (Note 5)	2,647	1,135	-	-	2,647	1,135
Pension liability (Note 6)	4,816	5,693	-	-	4,816	5,693
	12,183	11,319	2	251	12,185	11,570
Surplus	14,268	13,801	5,451	3,502	19,719	17,303
	\$ 26,451	\$ 25,120	\$ 5,453	\$ 3,753	\$ 31,904	\$ 28,873

ALBERTA ENERGY AND UTILITIES BOARD
SCHEDULE OF REVENUE, EXPENDITURE AND SURPLUS BY FUND
FOR THE YEAR ENDED MARCH 31, 1997
(thousands of dollars)

	Energy Resources		Well Abandonment		Total	
	1997	1996	1997	1996	1997	1996
Revenue:						
Industry levies and assessments	\$ 25,834	\$ 19,622	\$ 2,592	\$ 1,501	\$ 28,426	\$ 21,123
Applications and licences	13,393	11,121	1,010	740	14,403	11,861
Provincial contributions	12,830	18,488	-	-	12,830	18,488
Information and services	3,475	3,102	-	-	3,475	3,102
Interest	1,371	1,762	226	277	1,597	2,039
Miscellaneous	609	729	254	143	863	872
	57,512	54,824	4,082	2,661	61,594	57,485
Expenditure:						
Salaries and benefits (Note 7)	35,889	36,478	-	-	35,889	36,478
Building rental and maintenance	5,584	5,875	-	-	5,584	5,875
Capital assets expensed (Note 4)	2,438	1,307	-	-	2,438	1,307
Contract services	2,329	2,210	31	40	2,360	2,250
Computer services	2,226	2,548	-	-	2,226	2,548
Vehicle and equipment operating costs	2,197	1,554	-	-	2,197	1,554
Minor capital acquisitions	2,099	1,756	-	-	2,099	1,756
Well abandonment	-	4	2,098	2,180	2,098	2,184
Supplies	1,705	1,777	-	-	1,705	1,777
Travel and subsistence	1,025	960	-	1	1,025	961
Amortization	960	1,074	-	-	960	1,074
Miscellaneous	593	553	4	5	597	558
	57,045	56,096	2,133	2,226	59,178	58,322
Excess (deficiency) of revenue over expenditure	467	(1,272)	1,949	435	2,416	(837)
Surplus at beginning of year	13,801	15,073	3,502	3,067	17,303	18,140
Surplus at end of year	\$ 14,268	\$ 13,801	\$ 5,451	\$ 3,502	\$ 19,719	\$ 17,303

ALBERTA OIL
SANDS
TECHNOLOGY
AND
RESEARCH
AUTHORITY

.....

OIL SANDS
TECHNOLOGY
AND
RESEARCH
FUND

Financial Statements
March 31, 1997

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Auditor's Report



to the Members of the Alberta Oil Sands Technology and Research Authority

I have audited the balance sheet of the Alberta Oil Sands Technology and Research Authority - Oil Sands Technology and Research Fund as at March 31, 1997 and the statements of revenue, expenditure and fund balance, and changes in financial position for the year then ended. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with the disclosed basis of accounting as described in Note 2 to the financial statements.

Peter Valentini

FCA
Auditor General

Edmonton, Alberta
June 13, 1997

ALBERTA OIL SANDS TECHNOLOGY AND RESEARCH AUTHORITY
OIL SANDS TECHNOLOGY AND RESEARCH FUND
BALANCE SHEET
AS AT MARCH 31, 1997

	1997	1996
		(Restated Note 3)
ASSETS		
Current:		
Cash (Note 4)	\$ 17,630,368	\$ 8,022,594
Accounts receivable	1,420,008	991,796
	19,050,376	9,014,390
Operating advance (Note 5)	2,742,802	1,522,837
Capital assets (Note 6)	5,400,000	8,487,532
	\$ 27,193,178	\$ 19,024,759
LIABILITIES AND FUND BALANCE		
Current:		
Accounts payable	\$ 1,071,197	\$ 2,091,195
Holdbacks payable	210,834	283,209
	1,282,031	2,374,404
Accumulated provision for future project abandonment (Note 7)	4,133,000	3,405,000
	5,415,031	5,779,404
Fund balance	21,778,147	13,245,355
	\$ 27,193,178	\$ 19,024,759

Commitments (Note 8)

The accompanying notes are part of these financial statements.

ALBERTA OIL SANDS TECHNOLOGY AND RESEARCH AUTHORITY
OIL SANDS TECHNOLOGY AND RESEARCH FUND
STATEMENT OF REVENUE, EXPENDITURE AND FUND BALANCE
FOR THE YEAR ENDED MARCH 31, 1997

	1997		1996
	Budget	Actual	Actual (Restated Note 3)
Revenue			
Contributions from the General Revenue Fund	\$ 12,200,000	\$ 13,500,000	\$ 8,450,000
Sale of bitumen	3,000,000	12,643,022	7,436,740
Contributions from project participants	3,501,000	3,501,000	3,501,000
Production revenue and recoveries	327,000	2,330,279	818,899
Sale of technology	1,000,000	210,129	8,070
	20,028,000	32,184,430	20,214,709
Expenditure			
Underground access	8,400,000	8,952,801	5,701,121
Institutional research	3,085,000	2,369,390	2,237,556
Amortization	1,817,000	1,914,558	2,149,153
Enhanced recovery	1,267,000	923,786	659,601
Mining and extraction	1,695,000	728,841	599,744
Technology handling	442,000	500,713	372,508
Bitumen upgrading	700,000	130,503	59,129
In situ oil sands	4,969,000	120,314	257,052
Heavy oil	81,000	62,305	7,839
Training activities	60,000	56,780	81,456
International activities	75,000	39,804	(1,991)
Technology transfer and commercialization	258,000	34,308	1,254,270
Carbonate trend	30,000	20,884	5,957
Environment	1,140,000	7,289	(11,275)
Secretariat services	50,000	5,653	9,110
Miscellaneous project support	1,853,000	-	-
Write down of capital assets	-	7,783,709	-
	25,922,000	23,651,638	13,381,230
Excess (deficiency) of revenue over expenditure for the year	<u>\$ (5,894,000)</u>	8,532,792	6,833,479
Fund balance at beginning of year		13,245,355	6,411,876
Fund balance at end of year		<u>\$ 21,778,147</u>	<u>\$ 13,245,355</u>

The accompanying notes are part of these financial statements.

**ALBERTA OIL SANDS TECHNOLOGY AND RESEARCH AUTHORITY
OIL SANDS TECHNOLOGY AND RESEARCH FUND
STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31, 1997**

	1997	1996
		(Restated Note 3)
Operating activities:		
Excess of revenue over expenditure for the year	\$ 8,532,792	\$ 6,833,479
Non-cash charges:		
Amortization	1,914,558	2,149,153
Provision for future project abandonment	728,000	800,000
Write down of capital assets	7,783,709	-
	18,959,059	9,782,632
(Increase) decrease in accounts receivable	(428,212)	1,530,754
Decrease in accounts and holdbacks payable	(1,092,373)	(1,317,547)
	17,438,474	9,995,839
Financing activity:		
Increase in operating advance	(1,219,965)	(1,522,837)
Investing activity:		
Purchase of capital assets	(6,610,735)	(10,200,294)
Net increase (decrease) in cash	9,607,774	(1,727,292)
Cash at beginning of year	8,022,594	9,749,886
Cash at end of year	\$ 17,630,368	\$ 8,022,594

ALBERTA OIL SANDS TECHNOLOGY AND RESEARCH AUTHORITY
OIL SANDS TECHNOLOGY AND RESEARCH FUND
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 1997

NOTE 1 AUTHORITY AND PURPOSE

The Alberta Oil Sands Technology and Research Authority (the "Authority") operates under the authority of the Oil Sands Technology and Research Authority Act (the "Act"), Chapter 0-6, Revised Statutes of Alberta 1980.

The Act created a corporation, the Alberta Oil Sands Technology and Research Authority, which consists of not less than three and not more than nine members appointed by the Lieutenant Governor. The Authority assists in the development of new technology for recovery and processing of petroleum from Alberta oil sands deposits and heavy crude reserves, and enhanced recovery of oil from conventional petroleum reservoirs.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

(a) General

These financial statements have been prepared in accordance with generally accepted accounting principles except that costs in the amount of \$1,738,883 for salaries, accommodation and certain other administration costs incurred in the operation of the Authority have not been included in expenses. These costs are incurred and recorded by the General Revenue Fund of the Province of Alberta, Department of Energy.

(b) Capital Assets

Capital assets are recorded at cost, and are amortized on a straight-line basis over their estimated remaining useful lives. The estimated useful life of the assets that make up the Underground Test Facility ("UTF") is five years.

Provision for future project abandonment is made when costs are reasonably determinable.

Development costs for facilities and equipment are capitalized when the technical feasibility of technology is established and when estimated future revenues exceed estimated future expenditure.

NOTE 3 RESTATEMENT OF 1996 FIGURES

The 1996 figures have been restated, affecting both the Balance Sheet and the Statement of Revenue, Expenditure, and Fund Balance. Restatement was required because:

- Advances paid to the operator of the Underground Test Facility were expensed rather than recorded as advances and adjustments to revenues, expenditures, and capital purchases.
- Revenues related to certain projects were not recorded in the proper year.

The impact of restatement is as follows:

	Original Balance	Restated Balance	Increase/ (Decrease)
Accounts receivable	\$ 4,263,829	\$ 991,796	\$ (3,272,033)
Operating advance	\$ -	\$ 1,522,837	\$ 1,522,837
Capital assets	\$ 8,487,518	\$ 8,487,532	\$ 14
Accounts payable	\$ 5,399,689	\$ 2,091,195	\$ (3,308,494)
Fund balance	\$11,686,043	\$13,245,355	\$ 1,559,312
Production revenue and recoveries	\$ 686,071	\$ 818,899	\$ 132,828
Underground access	\$ 7,127,605	\$ 5,701,121	\$ (1,426,484)
Excess of revenues over expenditure for the year	\$ 5,274,167	\$ 6,833,479	\$ 1,559,312

NOTE 4 CASH

Cash consists of deposits in the Consolidated Cash Investment Trust Fund of the Province of Alberta. The Consolidated Cash Investment Trust Fund is being managed with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of high-quality short-term and mid-term fixed income securities with a maximum term of five years. Interest earned on cash balances, in the amount of \$322,647 (1996 \$574,022), is credited to the General Revenue Fund, and is therefore not reflected in these financial statements.

NOTE 5 RELATED PARTY TRANSACTIONS

The Authority owns the Underground Test Facility and entered into a contract with Gibson Petroleum Company Limited for the management of the Underground Test Facility effective October 1, 1995 to December 31, 1997. Management fees were paid to Gibson in the amount of \$668,728 for 1996-97. In the normal course of business Gibson purchased the bitumen production from the UTF in the amount of \$10,251,607 for 1996-97.

The operating advance is a non-interest bearing, unsecured loan given to the operator of the UTF in the amount of 25% of the estimated operating costs to be incurred during the contract. Repayment of the remaining advance will be made at the end of the contract.

NOTE 6 CAPITAL ASSETS

1997				1996
Cost	Accumulated Amortization	Write Down	Net Book Value	Net Book Value
Underground Test Facility				
\$ 17,356,500	\$ 4,172,791	\$ 7,783,709	\$ 5,400,000	\$ 8,487,532

The Authority owns the technology and assets (intangible drilling costs and equipment thereon) of the Underground Test Facility. Upon completion of an agreement between the Authority and nine industry participants, each industry participant is entitled to earn an 8 1/3% undivided interest in the UTF lease and capital assets. The UTF agreement is due to expire on December 31, 1997.

NOTE 7 ACCUMULATED PROVISION FOR FUTURE PROJECT ABANDONMENT

Under joint participation agreements, the Authority will incur certain costs when projects are abandoned. Management's estimate of future abandonment costs for the following projects is:

Underground Test Facility ^(a)	\$ 3,000,000
Taciuk facility	500,000
AMOCO GLISP	440,000
Norcen Bodo	20,000
Husky Kearle Lake	45,000
Unocal Buffalo Creek	120,000
Others	8,000
Total	\$ 4,133,000

^(a) Total estimated future abandonment costs are \$12,000,000. The Authority owns the project and associated assets, but has limited its liability to 25 percent of actual abandonment costs through an agreement with other participants.

NOTE 8 COMMITMENTS

The Authority has outstanding commitments as at March 31, 1997 totalling \$10,920,490 (1996 \$9,587,554) for approved projects.

NOTE 9 SALARIES AND BENEFITS

Information on salaries and benefits of the Authority's staff required under Treasury Board Directive 01-94 is included with information on the salary and benefits of the Department of Energy.

NOTE 10 BUDGET

The 1997 budget, reviewed by the Authority and approved by the Department of Energy, is presented for comparison with the 1997 actual figures.

NOTE 11 APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by management.

ALBERTA
PETROLEUM
MARKETING
COMMISSION

Financial Statements
December 31, 1997

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Auditor's Report



to the Members of the Alberta Petroleum Marketing Commission

I have audited the balance sheet of the Alberta Petroleum Marketing Commission as at December 31, 1996 and the statement of operations for the year then ended. These financial statements are the responsibility of the Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Commission as at December 31, 1996 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Peter Valente

FCA

Auditor General

Edmonton, Alberta
May 30, 1997

ALBERTA PETROLEUM MARKETING COMMISSION
BALANCE SHEET
AS AT DECEMBER 31, 1996
(thousands of dollars)

	1996	1995
ASSETS		
Cash and short-term investments (Note 3)	\$ 10,864	\$ 12,684
Accounts receivable	158,886	232,389
Inventory held on behalf of the Province of Alberta	101,208	162,724
	\$ 270,958	\$ 407,797
LIABILITIES		
Accounts payable (Note 4)	\$ 270,958	\$ 407,797

The accompanying notes are part of these financial statements.

ALBERTA PETROLEUM MARKETING COMMISSION
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 1996
(thousands of dollars)

	1996	1995
Revenue from crude oil sales (Note 5)	\$ 2,353,989	\$ 1,930,585
Expenditures		
Purchases under exchange agreements	54,570	105,868
Other crude oil purchases	804,102	515,190
Transportation	100,664	103,432
Marketing and administration	4,327	4,534
	963,663	729,024
Excess of revenue over expenditures	1,390,326	1,201,561
Less net revenue to others on sale of synthetic oil (Note 6)	-	18,736
	1,390,326	1,182,825
Other revenue		
Contributions from the Province of Alberta	2,660	3,219
Interest earned	1,118	1,216
Other	74	384
Reduction of accrued pension liability	661	
	4,513	4,819
Net revenue to transfer to the General Revenue Fund	\$ 1,394,839	\$ 1,187,644

ALBERTA PETROLEUM MARKETING COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 1996

NOTE 1 AUTHORITY

The Alberta Petroleum Marketing Commission (the "Commission") operates under the authority of the Petroleum Marketing Act, Chapter P-5, Revised Statutes of Alberta 1980, as amended, and the Natural Gas Marketing Act, Chapter N-2.8, Statutes of Alberta 1986, as amended. This legislation designates the Commission as agent of the Province of Alberta to accept delivery of and market the Crown royalty share of crude oil.

Included in revenue and expenditures are sales and purchases in support of alternative markets programs designed to optimize the allocation of pipeline capacity in periods of market disruptions and apportionment.

In the February 1994 Speech from the Throne, the Lieutenant Governor announced a major restructuring of the Energy Ministry. All the responsibilities of the Commission, except those directly related to crude oil marketing, were transferred to the Department of Energy (the "Department"), effective April 1, 1995. On March 31, 1996, the Commission entered into agreements with agents for the marketing of the Crown royalty share of crude oil effective June 1, 1996.

During 1996, the Department assumed the responsibility for the administration of the Commission. Certain salary costs, accommodation and other overhead costs incurred in the administration of the Commission were borne by the Department. Similarly, the Commission provided certain services for the Department for which no fees were charged. These amounts are not readily ascertainable and accordingly are not reflected in these financial statements.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

(a) Inventory

Inventory of conventional and synthetic oil in feeder and trunk pipelines represents inventories received on behalf of the Province and, at the balance sheet date, not recognized in the Commission's sales. Inventories are stated at net realizable value.

(b) Marketing Expenditure

Marketing expenditure includes fees paid to agents and administration costs incurred by the Commission.

(c) Financial Instruments

Currency and price risks are inherent in the sale and purchase of crude oil. The agents remit sales proceeds to the Commission in Canadian funds and convert foreign currencies to Canadian funds at daily or average monthly rates on or near payment due date. The agents may use operational oil price hedging to address risk. The fair values of the Commission's assets and liabilities approximate their carrying values as at December 31, 1996.

(d) Changes in Financial Position

A statement of changes in financial position is not provided as disclosure in these financial statements is considered adequate.

NOTE 3 CASH AND SHORT-TERM INVESTMENTS

Cash and short-term investments includes deposits in the Consolidated Cash Investment Trust Fund (the "Fund") of the Province of Alberta. The Fund is invested primarily in securities maturing in less than one year which are either issued or guaranteed by Canadian federal and provincial governments, deposits with or guaranteed by chartered banks, or short-term investment-grade-quality notes of Canadian corporations. Interest is earned on the daily cash balance at the average rate of earnings of the Fund which varies depending on prevailing market interest rates.

NOTE 4 ACCOUNTS PAYABLE

	1996	1995
	<i>(thousands of dollars)</i>	
<i>Payable to the Province of Alberta</i>		
Royalty share	\$ 238,704	\$ 236,319
Equity in capital assets	-	315
	238,704	236,634
<i>Payable to others</i>		
Transportation and purchases	30,332	141,948
Synthetic oil (Note 6)	-	18,736
Goods and services tax	1,880	9,456
Accrued pension liability	-	661
Trade	42	245
Accrued vacation pay	-	117
	\$ 270,958	\$ 407,797

Historically, the Commission participated with other public sector employers in two defined benefit pension plans. The Public Service Pension Plan and the Management Employees Pension Plan provide pensions for the Commission's employees based on length of service and earnings. The employers' portion of the unfunded liability of these plans was allocated based on pensionable earnings. As at December 31, 1996, the Commission had no employees and therefore no accrued pension liability.

NOTE 5 REVENUE FROM CRUDE OIL SALES

	1996	1995
	<i>(thousands of dollars)</i>	
Crown royalty share	\$ 1,379,212	\$ 1,116,703
Sales for alternative markets initiatives	920,185	508,473
Sales under exchange agreements	54,592	105,868
Crown equity share	-	199,541
	\$ 2,353,989	\$ 1,930,585

NOTE 6 SALE OF PROVINCE'S SHARE IN SYNCRUDE CANADA PROJECT

On November 30, 1995, the Province of Alberta sold its 11.74% interest in the Syncrude Canada Project, effective June 1, 1995. The purchaser's share of the December 1995 production was marketed on their behalf by the Commission. The Accounts of the Commission reflect these transactions.

NOTE 7 BUDGET

The Commission's budget for the administrative costs it would incur for the year ended December 31, 1996 was \$2,759,000 (1995 \$3,490,000). This budget was approved by the Department of Energy.

NOTE 8 COMMITMENTS

The Commission has allocated a portion of its anticipated pipeline requirements to firm transportation agreements of up to fifteen years. These agreements obligate the Commission to pay tariff charges for contracted volumes in accordance with contract rates. The aggregate estimated commitment of \$175,000,000 for the fifteen year period starting in 1997, will be paid from future oil royalty revenue. Costs for these pipeline services are expected to be within the range of normal transportation costs.

NOTE 9 COMPARATIVE FIGURES

The 1995 comparative figures have been reclassified where necessary to conform to 1996 presentation.

NOTE 10 APPROVAL OF FINANCIAL STATEMENTS

These financial statements have been approved by the Commission.

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